

23 October 2017

Quarterly Report

To 30 September 2017

HIGHLIGHTS

Financial Performance

- Sales of \$12.4 million, in line with program demand and volume commitments. Quarterly sales will increase as JSF production ramps up through the remainder of FY18
- Cash of \$4.3 million at 30 September, up from \$3.7 million at 30 June

Joint Strike Fighter (JSF) Production

- 293 parts delivered in Q1 FY18, a slight decline on prior quarter deliveries as Quickstep prepares to materially increase production through the remainder of FY18. Total manufacturing volumes are expected to exceed 1,500 parts during FY18, an increase of over 20% on FY17.

Lockheed Martin C-130J Production

- Six (6) ship-sets delivered in Q1 FY18
- 100th wing flap shipset delivered in July

Other Projects

- Successful customer demonstration for the automotive front fender project

OneQuickstep

- **OneQuickstep** to deliver accelerating benefits through FY18
- Transition to a single global centre of excellence for R&D in Geelong
- Lean manufacturing implementation to commence in Q2 FY18

1.0 SALES PERFORMANCE

Total sales for Q1 FY18 were \$12.4 million, in line with expectations, and all programs were delivered in line with our long term contracts. While Q1 sales were lower than the previous quarter, which included additional sales of both C-130J wing flaps and vertical tails, overall sales volumes remain on track to increase during FY18.

2.0 OPERATIONAL PERFORMANCE

2.1 JSF PROGRAM

Quickstep is the key supplier globally to Northrop Grumman for 21 JSF components including doors, panels, skins and other composite parts for the JSF program. Quickstep will also supply 700 sets of vertical tails composite parts including skins, spars and fairings over the next 14 years under an agreement with BAE Systems' supplier, Marand Precision Engineering.

In Q1 FY18 JSF deliveries were 293 parts, a slight decline on Q4 FY18 but an increase of 14% from 256 parts in the prior corresponding period (pcp). Of these, 243 parts were delivered to Northrop Grumman, up 36% from the pcp. 50 vertical tail parts were delivered in the quarter, a 35% reduction from 77 in the pcp which included an additional vertical tails order for BAE Systems. However, underlying program volumes will continue to increase in the second half of FY18. Quickstep's JSF production program continues in line with program demand; and JSF manufacturing volumes are expected to exceed 1,500 parts in FY18, up over 20% from FY17 with further growth of more than 50% in FY19 expected.

2.2 C-130J PROGRAM

Quickstep is the exclusive supplier of composite wing flaps to Lockheed Martin for the C-130J Hercules and LM-100J aircraft under an initial five- year memorandum of agreement (MoA), which extends through to 2019 in line with Lockheed Martin's C-130J Multiyear II contract with the US Department of Defense.

Six (6) ship-sets were delivered in Q1, according to schedule, compared to seven (7) shipsets and three (3) spares – a total of 7.75 shipsets - delivered in the pcp.

Quickstep delivered the 100th shipset of wing flaps for the C-130J transport aircraft in July 2017, and has delivered all contracted C-130J parts on time over the program life.

2.3 OTHER PROGRAMS

Thales Hawkei: Production of a third lot of 20 sets of composite body parts for the Hawkei vehicle commenced in the quarter. The sets comprise 190 individual components and will be completed in H2 FY18. This will be the last set of parts produced for Hawkei, with Quickstep ceasing non-core programs that do not fit with its future growth plans. The Hawkei project is glass-fibre and does not use any of Quickstep's core technologies.

Micro-X: Production of parts for Micro-X's portable, ultra-lightweight X-ray device continued in Q1 FY18 using Qure technology. This follows the commencement of production for this contract in Q3 FY17. The mobile X-ray device will be sold in North America and other export markets. This is the first industrial program to use Quickstep's patented Qure process for the manufacturing of composite parts.

QPS development: Commercialisation of the Quickstep Production System (QPS) continued, with the front fender project for a European original equipment manufacturer (OEM) completing 'phase one' of the project to demonstrate the effectiveness of Qure as a substitute for traditional autoclave technology. This included a successful trial of prototype parts and the process solution in September 2017, which was demonstrated to the customer and our collaborative partners. Quickstep is focused on increasing production rates to meet growing aerospace build rates and automotive vehicle volumes.

QPS offers a complete material to finished part solution, focused on rate improvement, process efficiency, automation and one piece material flow. QPS can be adapted to multiple market and part applications, and Quickstep plans to implement QPS internally at each of our facilities and for new customer programs.

Lean manufacturing: Quickstep finalised planning in Q1 FY18 and will commence a new lean manufacturing program at both its Bankstown and Geelong facilities in Q2 FY18.

3.0 GROWTH OPPORTUNITIES

3.1 NEW BUSINESS

Quickstep remains engaged in a number of development projects. These projects are co-funded by Quickstep and its collaboration partners, and are expected to lead to further volume production contracts.

Quickstep is also negotiating with new and existing customers for additional growth opportunities at the Bankstown and Geelong sites.

4.0 CORPORATE

4.1 CASH POSITION

At 30 September 2017 the group held \$4.3 million in cash. This was an increase of \$0.6 million compared to \$3.7 million closing cash at 30 June 2017, and included a further drawdown of \$1m on the Efic Export Contract Loan. The company also holds \$0.7 million in restricted term deposits to be held to maturity.

4.2 CASHFLOW

Operating cashflow of \$0.1 million included net R&D investment of \$0.9 million. The business also received the final VAT refund instalment from Germany of \$0.8 million in the quarter. Total capex spend for the quarter was \$0.5 million, with final payments made on projects recently completed. The business drew down an additional \$1.0 million in the quarter under its \$3 million Efic Export Contract Loan, which took the total drawdown at 30 September to \$2.5 million.

4.3 STRATEGY AND OPERATIONAL REVIEW

In August 2017 Quickstep announced that it would realign the business to drive profitability and growth. This followed a comprehensive strategy and operational review by the new CEO/Managing Director, the executive management team and the Board. The review identified a number of important changes that are being implemented, with the objective of accelerating profitability and growth over the short, medium and longer term. The company's plan is known as **OneQuickstep**.

The **OneQuickstep** program brings significant benefits from revised organisational structure and leadership roles, productivity and efficiency improvements, refocused R&D investment and a focus on targeted business development and growth. Initial changes have focused on management realignment and refocused R&D, with the closure of the R&D facility in Germany and the retrenchment of 12 R&D staff, effective November 2017, heralding the transition to a single global centre of excellence for R&D in Geelong. The business will continue to

focus on new opportunities in Europe and the USA through manufacturing and technology partnerships with new resources now added to its business development team.

Quickstep expects to benefit from these changes late in Q2 FY18. The next wave of the **OneQuickstep** program will focus on realignment of corporate and administrative costs and operational efficiencies, and is expected to improve performance in the second half of FY18.

4.4 QUICKSTEP BOARD CHANGES

Subsequent to the end of the September quarter Quickstep announced a reduction in its Board, which will take effect after the Annual General Meeting on 23 November, 2017. At the meeting:

- Air Marshal Errol McCormack (Ret'd) AO, Non-Executive Director, will retire from the Board, having served seven years;
- Peter Cook will retire from the Board, having been a Non-Executive Director since 2005; and
- Nigel Ampherlaw, Non-Executive Director, will resign from the Board, due to the time commitments in his new role as Chairman of Credit Union Australia

Quickstep has recently made changes to enhance the quality and capability of the streamlined executive management team, increasing the depth of capability within the broader executive. Given these changes, the Board has decided not to add any new non-executive Directors at this stage. This aligns with the ongoing **OneQuickstep** change program which is reducing cost, bringing lean implementation and productivity enhancement across the total business.

5.0 OUTLOOK

Quickstep's vision is to become a world leader in advanced composites manufacturing. The company is focused on expanding its business in the aerospace, defence, automotive, medical device and other high-growth sectors.

Quickstep has solid, long-term contracts in place, continued JSF production growth and a strong defence aerospace 'build to print' outlook. The Company plans to increase focus on the aerospace and defence sector over the next 12-24 months, looking at customer cost reduction opportunities through using Qure and QPS to address volume production constraints. The business will continue to drive improved productivity through delivering the **OneQuickstep** program.

Over time, Quickstep will be looking at partnership opportunities to take the Company into its target growth markets and believes that its OneQuickstep strategy will deliver profitability and accelerated growth.

-ENDS-

Background on Quickstep Holdings Limited

Quickstep Holdings Limited (ASX: QHL) is an Australian publicly listed company, at the forefront of advanced composites manufacturing and technology development. Quickstep is the largest independent aerospace-grade advanced composite manufacturer in Australia, partnering with some of the world's largest Aerospace/Defence organisations including: Lockheed Martin, Northrop Grumman, BAE Systems, as well as Victorian-based Marand Precision Engineering.

Quickstep operates from state-of-the-art aerospace manufacturing facilities at Bankstown Airport in Sydney, NSW; and a site for the advanced manufacturing of composite parts and R&D/ process development in Geelong, Victoria.

Quickstep is an approved supplier for the international F-35 Lightning II Joint Strike Fighter (JSF) program - the largest military aerospace program in the world, valued in excess of US\$300 billion worldwide. The Company has also been selected by Lockheed Martin as the sole supplier of composite wing flaps for the military C-130J "Super Hercules" and commercial LM-100J transport aircraft.

Quickstep has developed significant capabilities and expertise in the production of automotive and aerospace grade, advanced composite components, using both conventional autoclave-based manufacturing and leading out-of-autoclave production technologies (developed in-house and patented).

For further information:

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

| |
|-----------------------------------|
| QUICKSTEP HOLDINGS LIMITED |
|-----------------------------------|

ABN

| |
|-----------------------|
| 55 096 268 156 |
|-----------------------|

Quarter ended ("current quarter")

| |
|--------------------------|
| 30 SEPTEMBER 2017 |
|--------------------------|

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 15,333 | 15,333 |
| 1.2 Payments for | | |
| (a) research and development | (1,082) | (1,082) |
| (b) product manufacturing and operating costs | (9,139) | (9,139) |
| (c) advertising and marketing | (35) | (35) |
| (d) leased assets | (39) | (39) |
| (e) staff costs | (4,507) | (4,507) |
| (f) administration and corporate costs | (556) | (556) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 5 | 5 |
| 1.5 Interest and other costs of finance paid | (26) | (26) |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | 180 | 180 |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from operating activities | 134 | 134 |

| | | |
|--|-------|-------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (545) | (545) |
| (b) businesses (see item 10) | - | - |
| (c) investments | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--------------------------------------|--|----------------------------|---------------------------------------|
| | (d) intellectual property | - | - |
| | (e) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (a) property, plant and equipment | - | - |
| | (b) businesses (see item 10) | - | - |
| | (c) investments | - | - |
| | (d) intellectual property | - | - |
| | (e) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| 2.6 | Net cash used in investing activities | (545) | (545) |

| | | | |
|-----------|---|--------------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of shares | - | - |
| 3.2 | Proceeds from issue of convertible notes | - | - |
| 3.3 | Proceeds from exercise of share options | - | - |
| 3.4 | Transaction costs related to issues of shares, convertible notes or options | - | - |
| 3.5 | Proceeds from borrowings | 1,000 | 1,000 |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | - | - |
| 3.10 | Net cash from financing activities | 1,000 | 1,000 |

| | | | |
|-----------|--|-------|-------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of quarter/year to date | 3,722 | 3,722 |
| 4.2 | Net cash from operating activities (item 1.9 above) | 134 | 134 |
| 4.3 | Net cash used in investing activities (item 2.6 above) | (545) | (545) |
| 4.4 | Net cash from financing activities (item 3.10 above) | 1,000 | 1,000 |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--------------------------------------|--|----------------------------|---------------------------------------|
| 4.5 | Effect of movement in exchange rates on cash held | 33 | 33 |
| 4.6 | Cash and cash equivalents at end of quarter | 4,344 | 4,344 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|-----|--|----------------------------|-----------------------------|
| 5.1 | Bank balances | 4,344 | 4,344 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 4,344 | 4,344 |

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

324

-

Executive and Non-Executive Directors' remuneration included in item 6.1

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

N/A

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|--|---|
| 8.1 Loan facilities | 11,250 | 11,250 |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Other (capitalised interest) | 3,333 | 3,333 |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. | | |

The Group has two loan facilities: -

A long term facility that was originally \$10 million with additional capability to capitalise interest up to \$3.3 million. To date, \$1.75 million has been repaid, with the facility now at \$8.25 million with a capitalised interest cap of \$3.3 million. The loan is secured with Efic (Export Finance and Insurance Corporation) as guarantor and the ANZ Bank as financier. Interest is variable at a capped rate with a fixed margin and guarantee payable. The effective interest rate is currently 8.3%.

An additional \$3 million Export Contract Loan (ECL) was created with Efic in June 2017. This is a short term facility to fund working capital for growth of booked business and \$2.5 million was drawn down at 30 September 2017. The effective interest rate is currently 7.9%.

| 9. Estimated cash outflows for next quarter | \$A'000 |
|--|-----------------|
| 9.1 Research and development | (845) |
| 9.2 Product manufacturing and operating costs | (7,610) |
| 9.3 Advertising and marketing | (50) |
| 9.4 Leased assets | (40) |
| 9.5 Staff costs | (4,695) |
| 9.6 Administration and corporate costs | (680) |
| 9.7 Other (provide details if material) | - |
| 9.8 Total estimated cash outflows | (13,920) |

| 10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above) | Acquisitions | Disposals |
|--|---------------------|------------------|
| 10.1 Name of entity | - | - |
| 10.2 Place of incorporation or registration | - | - |
| 10.3 Consideration for acquisition or disposal | - | - |
| 10.4 Total net assets | - | - |
| 10.5 Nature of business | - | - |

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Director/Company secretary)

Date: 23 OCTOBER 2017

Print name: JAIME PINTO

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.