

THIRD QUARTER FY18 UPDATE

17 April 2018: Quickstep (ASX: QHL), Australia's leading independent carbon fibre composites manufacturer, today announced its quarterly update for the third quarter of FY18.

MARCH 2018 QUARTER SUMMARY

- » **Total sales of \$14.6 million, up 15% on the same period last year**
- » **YTD FY18 sales of \$42.5 million, up 14% on last year**
- » **Positive operating cashflow of \$2.7 million**
- » **Positive EBIT in Q3, on track for positive EBIT H2 FY18 and full year FY19**
- » **Dorrigo Capital \$2 million loan repaid; closing cash of \$2.9 million at 31 March 2018**
- » **OneQuickstep program delivering margin benefit and cost savings**
- » **Development work commenced on two new Boeing Defense programs**
- » **Sales and Manufacturing Agreement in place with ATR Group for European market**
- » **F-35 production on track and delivering expected program growth**

FINANCIAL UPDATE

Quickstep achieved strong sales growth with total Q3 sales revenue of \$14.6 million, an increase of 15% compared to \$12.7 million in Q3 FY17. Year to date sales were \$42.5 million, an increase of 14% compared to \$37.3 million to Q3 FY17. All components were supplied on time and in line with program demand. The business remains on track to deliver higher JSF volumes over the next two years.

Operating cashflow was strong at \$2.7 million driven by **OneQuickstep** initiatives improving gross margin and EBITDA \$0.6 million, a working capital reduction of \$1.2 million and a net deferred income benefit of \$0.9 million.

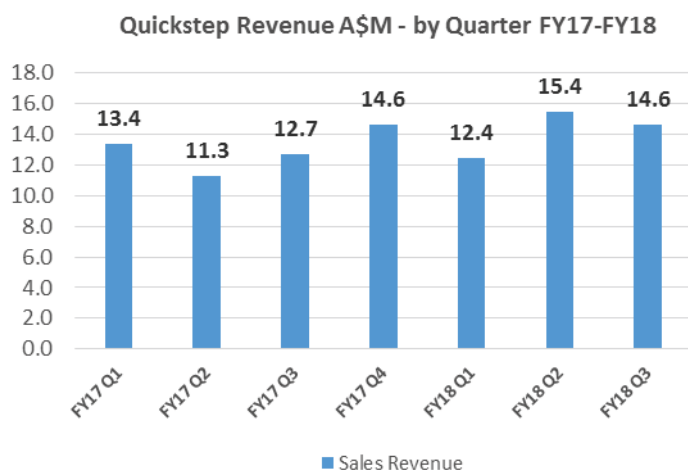
- » The business achieved positive EBIT in Q3 and positive EBIT is anticipated in H2 FY18
- » Cost savings from **OneQuickstep** activities are expected to be around \$3.5 million for the FY18 year
- » Deferred income had a net positive cash impact of \$0.9 million in Q3 (reflects timing of half-yearly advance payments received in Q1 and Q3 for C-130J production)

At 31 March 2018, the group held \$2.9 million in cash (31 December 2017: \$2.3 million) and \$0.7 million in restricted term deposits (31 December 2017: \$0.7 million).

- » In Q3, Quickstep repaid the \$2 million loan from Dorrigo Capital Pty Ltd in full
- » Total outstanding debt, including capitalised interest, was \$13.8 million at 31 March 2018. This was a reduction of \$1.8 million from 31 December 2017.

The business delivered stronger volumes in Q3 and, combined with initial savings from the lean manufacturing program, delivered improved gross margin in both percentage and dollars. Additional cost benefits from **OneQuickstep** delivered positive EBITDA. The strong cashflow generated was utilised to pay down the Nov 2017 \$2 million loan from Dorrigio Capital in full and finish with a higher cash position of \$2.9 million at 31 March 2018.

SALES REVENUE



OPERATIONAL UPDATE

OneQuickstep program delivers cost benefits and positive organisational change

On 1 August 2017, CEO Mark Burgess outlined Quickstep's new strategic direction -- **OneQuickstep** -- to accelerate profitability and growth. Below is an update of **OneQuickstep** actions:

OneQuickstep Initiatives	Actions and Achievements
Aligned strategy	<ul style="list-style-type: none"> » Initial review completed and actions initiated » Annual strategic and operations review commenced March 2018
People, structure	<ul style="list-style-type: none"> » Cost savings delivered in Q3 » High Performance Culture program commenced Jan 2018
R&D, technology	<ul style="list-style-type: none"> » Single global centre of excellence in Geelong » Capital equipment relocated from former German operations to Geelong
Lean enterprise, cost efficiency	<ul style="list-style-type: none"> » Lean programs delivering EBITDA and cash benefits » Ceasing non-core programs, including Hawkei project in H2 FY18
Growth, expansion	<ul style="list-style-type: none"> » Boeing Defense programs now in development » Sales and Manufacturing Agreement signed with ATR Group » On track to exceed 10% increase in sales over prior year » New US-based senior Business Development resource appointed for commencement in Q4
Profitability	<ul style="list-style-type: none"> » On track to deliver \$3.5 million reduction in costs in FY18 » Positive EBIT in Q3, on target to deliver positive EBIT H2 FY18

Significant new actions and activities during the third quarter included:

- » **ATR Group:** Quickstep signed a European Sales and Manufacturing Agreement with The ATR Group, a leading Italian company that designs, prototypes and manufactures structural parts and components in advanced composite materials (Website: <https://www.atrgroup.it/en/>) for the European market with a focus on developing specific automotive and commercial aerospace growth opportunities for Qure and QPS in the European market.
- » **Boeing Defense:** Quickstep began development activities for two new small contracts from Boeing Defense for F-15 and F-18 components. These contracts add a new tier 1 customer, and business platforms and part families to our portfolio. Most importantly, they provide a pathway to Boeing supplier accreditation which will open significant future business opportunities across the Boeing Company.
- » **General Atomics:** Quickstep is partnering with General Atomics in the 'Team Reaper' tender for Remotely Piloted Aircraft (RPA) systems. This partnership is progressing well and may lead to additional project opportunities with General Atomics.

These are all part of a comprehensive business plan to grow Quickstep's sales revenue and to diversify its customer base in the Defence and Aerospace sectors, while expanding the Company's core capabilities to further grow the business globally in the Aerospace and Automotive sectors.

OUTLOOK

The Q3 FY18 financial update demonstrates that the **OneQuickstep** program is delivering benefits. Actions taken in the first half of FY18 have delivered the expected financial outcomes in Q3. A number of longer term programs have also commenced, focused on improving efficiencies and operational and financial performance. Quickstep is now looking to deliver current booked business growth with improved margins and is further increasing business development activities to win additional business, through its three-tiered growth strategy.

- Tier One is the delivery of all existing contract growth and new defence and aerospace business at Bankstown that aligns to the company's current infrastructure and experience.
- Tier Two is new business opportunities in aerospace, automotive and other advanced industries using Qure and QPS.
- Tier Three is securing a large program or other expansion opportunities in defence, commercial aerospace and automotive.

Over the next three years the company will benefit from increasing JSF production and higher margins as economies of scale improve and our increased business development function and project pipeline has us well positioned for future profitable growth.

Key facts about Quickstep's major contracts

Joint Strike Fighter (JSF)	<ul style="list-style-type: none"> » Over the life of the JSF program, Quickstep will manufacture and supply more than A\$1 billion in JSF composite components and assemblies » The F-35 Lightning II JSF Program is the world's largest military aerospace program, valued in excess of US\$300 billion » Quickstep is the key supplier globally to Northrop Grumman for 21 JSF components including doors, panels, skins and other composite parts » QHL will also supply 700 sets of vertical tail parts over 14 years under an agreement with BAE Systems' supplier, Marand Precision Engineering
Super Hercules C-130J	<ul style="list-style-type: none"> » Lockheed Martin awarded Quickstep the sole supplier of composite wing flaps for the C-130J "Super Hercules" military transport aircraft » Quickstep's initial five-year memorandum of agreement (MoA) extends through to 2019 in line with Lockheed Martin's C-130J Multiyear II contract with the U.S. Department of Defense » Discussions are underway for a further 5-year contract for the period 2020 to 2024 » The business supplies wing flaps in shipsets, which comprise of four main structures – an inner and outer left and right flap. Spares supplied can be a partial shipset (one quarter) through to a full shipset.

For further information:

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About Quickstep Holdings

Quickstep Holdings Limited (ASX: QHL) is the largest independent aerospace-grade advanced composite manufacturer in Australia, operating from state-of-the-art aerospace manufacturing facilities at Bankstown Airport in Sydney, NSW and a manufacturing and R&D/ process development centre in Geelong, Victoria. The group employs more than 200 people in Australia and internationally. More information about Quickstep is available at www.quickstep.com.au

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")

31 MARCH 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	15,860	44,007
1.2 Payments for		
(a) research and development	(275)	(2,333)
(b) product manufacturing and operating costs	(7,163)	(27,212)
(c) advertising and marketing	(75)	(190)
(d) leased assets	(38)	(119)
(e) staff costs	(5,003)	(14,196)
(f) administration and corporate costs	(563)	(1,679)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	12
1.5 Interest and other costs of finance paid	(86)	(180)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	81	315
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	2,740	(1,575)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(227)	(705)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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	(227)	(705)

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	-	3,500
3.6	Repayment of borrowings	(2,000)	(2,050)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	(155)
3.10	Net cash from / (used in) financing activities	(2,000)	1,295

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	2,345	3,722
4.2	Net cash from / (used in) operating activities (item 1.9 above)	2,740	(1,575)
4.3	Net cash used in investing activities (item 2.6 above)	(227)	(705)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(2,000)	1,295

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(7)	114
4.6	Cash and cash equivalents at end of quarter	2,851	2,851

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	2,851	2,345
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)	2,851	2,345

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**

189

-

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	13,200	11,200
8.2 Credit standby arrangements	-	-
8.3 Other (capitalised interest)	3,333	2,565
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 three loan facilities: -

A long term facility that was originally \$10 million with additional capability to capitalise interest up to \$3.3 million. To date, \$1.8 million has been repaid, with the facility now at \$8.2 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.

A \$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 \$3.0 million was drawn down at 31 March 2018 with no movement in the quarter.

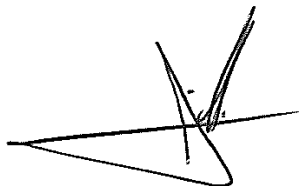
Quickstep commenced an additional \$2 million secured loan facility with Dorrigo Capital Pty Ltd in November 2017. The facility is available to 27 May 2018. The business repaid the loan in the March quarter and is unlikely to re-draw funds.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(380)
9.2 Product manufacturing and operating costs	(6,800)
9.3 Advertising and marketing	(125)
9.4 Leased assets	(44)
9.5 Staff costs	(5,016)
9.6 Administration and corporate costs	(590)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(12,955)

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:
(Jaime Pinto - Company secretary)

Date: .17 April 2018

Print name:

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.