

## FOURTH QUARTER FY18 UPDATE

**30 July 2018: Quickstep Holdings Limited** (ASX: QHL), Australia's leading independent carbon fibre composites manufacturer, today announced its quarterly update for the fourth quarter of FY18.

### JUNE 2018 QUARTER SUMMARY (Unaudited)

- » **Total sales \$16.6 million, up 14% on the same period last year**
- » **Full year FY18 sales \$59.0 million, up 14% on last year**
- » **EBIT positive in Q4 and for the second half (H2) of FY18**
- » **Positive operating cashflow Q4 (+\$1.1M) and H2 (+3.9M)**
- » **OneQuickstep program continues to deliver gross margin improvement and cost savings**
- » **Boeing Defense programs start production in FY19**
- » **F-35 production on track and delivering expected program growth**
- » **New Chief Financial Officer, Alan Tilley, commenced in late Q4**

### FINANCIAL UPDATE

Quickstep delivered strong sales growth in Q4 with sales revenue of \$16.6 million, an increase of 14% compared to \$14.6 million in Q4 FY17. Full year sales were \$59.0 million, an increase of 14% compared to \$51.9 million in FY17. All components were supplied on time and in line with program demand. Quickstep remains on track to deliver higher Joint Strike Fighter (JSF) volumes over the next two years, with JSF revenue expected to increase more than 40% in FY19.

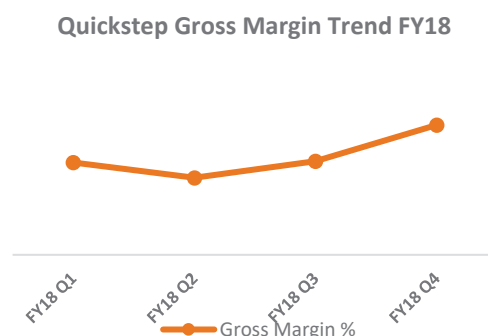
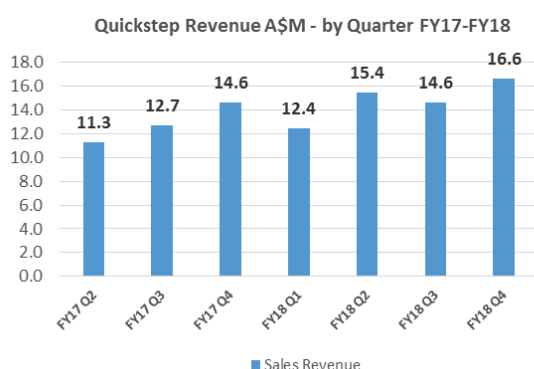
Operating cashflow was \$1.1 million for Q4 with **OneQuickstep** initiatives improving gross margin and delivering positive EBITDA and working capital reduction. This was offset by a net deferred income reduction of \$2.9 million.

- » Deferred income had a net negative cash impact of \$2.9 million in Q4 (which reflects the timing of half-yearly partial advance payments received in Q1 and Q3 for C-130J production).
- » EBIT was positive and stronger in Q4. The business achieved positive EBIT in FY18 H2 and EBIT is expected to continue to improve in FY19.
- » Cost savings from **OneQuickstep** activities of around \$3.5 million net achieved in FY18.

At 30 June 2018, the group held \$2.9 million in cash (31 March 2018: \$2.9 million) and \$0.8 million in restricted term deposits (31 March 2018: \$0.7 million). Total outstanding debt, including capitalised interest, was \$13.6 million at 30 June 2018. This was a reduction of \$0.2 million from 31 March 2018.

Stronger volume production and savings from lean manufacturing contributed to improved gross margin in H2 with an increase of five percentage points in H2 compared to H1. Further gross margin improvements are expected in FY19 as JSF volumes continue to increase and the ongoing lean manufacturing program. Cost benefits from **OneQuickstep** helped deliver EBITDA of \$1.9 million in H2.

## SALES REVENUE AND GROSS MARGIN



## 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 a Q4 update of **OneQuickstep** actions:

OneQuickstep Initiatives	Actions and Achievements
<b>Aligned strategy</b>	<ul style="list-style-type: none"> <li>» Annual strategic and operations review completed in Q4</li> <li>» Tiered growth strategy revised to deliver accelerated growth</li> </ul>
<b>People, structure</b>	<ul style="list-style-type: none"> <li>» Further cost savings delivered in Q4</li> <li>» High Performance Culture program commenced in H2 FY18</li> <li>» New Chief Financial Officer, Alan Tilley, appointed in late Q4</li> </ul>
<b>R&amp;D, technology</b>	<ul style="list-style-type: none"> <li>» Global centre of excellence in Geelong supports Bankstown activities</li> <li>» Qure capability increased to higher specifications (equivalent to Autoclave for aerospace applications)</li> <li>» Upgraded Qure cell now fully operational at Geelong site</li> </ul>
<b>Lean enterprise, cost efficiency</b>	<ul style="list-style-type: none"> <li>» Lean programs delivering gross margin, EBITDA and cash benefits</li> <li>» Quickstep re-certified to the new AS9001D quality management standard for aviation, space and defense organizations in Q4</li> </ul>
<b>Growth, expansion</b>	<ul style="list-style-type: none"> <li>» Boeing Defense programs further developed and on track</li> <li>» Supplier accreditation achieved with both Boeing and Airbus in Q4</li> <li>» 14% sales increase over prior period</li> <li>» New US-based senior Business Development leader commenced in Q4</li> </ul>
<b>Profitability</b>	<ul style="list-style-type: none"> <li>» Cost savings of \$3.5 million achieved in FY18</li> <li>» Gross margin improved by five percentage points H2 compared to H1</li> <li>» Positive EBIT in Q4, positive EBIT in H2</li> </ul>

### **Significant new actions and activities during the fourth quarter included:**

- » **Boeing Defense:** Quickstep continued development 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 Quickstep's portfolio. Quickstep achieved Approved Supplier status with Boeing in Q4, 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.
- » **Airbus:** Quickstep received formal notification in Q4 that it is now an Approved Supplier to Airbus in Australia and the South Pacific. This will allow Quickstep to formally quote for new business with Airbus in Australia Pacific.
- » **U.S. Market:** Quickstep appointed a senior Business Development leader in Q4, who will be U.S.-based. This will allow for more regular and deeper engagement with existing and potential new U.S. customers.

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

## **OUTLOOK**

**Actions taken in the first half of FY18 have successfully delivered the expected financial outcomes for H2 FY18 and as the benefits of the OneQuickstep program flow through and JSF volumes continue to increase, the group expects further EBIT improvement in FY19. OneQuickstep initiatives will also continue to deliver positive operating cash flow and improving gross margin in FY19.** In addition a number of longer term programs have also commenced focussing on further improving operational and financial performance.

Quickstep expects to deliver current booked business growth with improved margins and is further increasing business development activities to win additional business, through its tiered growth strategy:

- » **Tier 1 - Core Defence Aerospace:** Increasing revenue and diversifying the company's customer base within the Defence/Aerospace sector utilising existing Bankstown facilities, while expanding core capabilities
- » **Tier 2 - Aerospace Qure/Advanced Manufacturing Deployment:** Strategic growth within the Aerospace and other sectors, using Qure and innovative technology solutions to attract new business opportunities
- » **Tier 3 - Growth:** Step change to Commercial Aerospace supply. Securing of large global programs and/or inorganic growth across the wider defence, commercial aerospace and automotive industries

Over the next three years Quickstep expects to benefit from increasing JSF production and higher margins as economies of scale improve. An enhanced business development function and healthy project pipeline has the company well positioned for future profitable growth. The group continues to be focused on high value, expanding global markets while strengthening its position as Australia's leading independent carbon fibre composites manufacturer.

## Key facts about Quickstep's major contracts

<b>Joint Strike Fighter (JSF)</b>	<ul style="list-style-type: none"> <li>» Over the life of the JSF program, Quickstep will manufacture and supply more than A\$1 billion in JSF composite components and assemblies</li> <li>» The F-35 Lightning II JSF Program is the world's largest military aerospace program, valued in excess of US\$300 billion</li> <li>» Quickstep is the key supplier globally to Northrop Grumman for 21 JSF components including doors, panels, skins and other composite parts</li> <li>» QHL will also supply 700 sets of vertical tail parts over 14 years under an agreement with BAE Systems' supplier, Marand Precision Engineering</li> </ul>
<b>Super Hercules C-130J</b>	<ul style="list-style-type: none"> <li>» Lockheed Martin awarded Quickstep the sole supplier of composite wing flaps for the C-130J "Super Hercules" military transport aircraft</li> <li>» 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</li> <li>» Discussions are underway for a further 5-year contract for the period 2020 to 2024</li> <li>» 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.</li> </ul>

### For further information:

#### Investors

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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 220 people in Australia and internationally. More information about Quickstep is available at [www.quickstep.com.au](http://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**

<b>QUICKSTEP HOLDINGS LIMITED</b>
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**ABN**

<b>55 096 268 156</b>
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**Quarter ended ("current quarter")**

<b>30 JUNE 2018</b>
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<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	13,961	57,969
1.2 Payments for		
(a) research and development	(275)	(2,608)
(b) product manufacturing and operating costs	(7,896)	(35,107)
(c) advertising and marketing	(64)	(254)
(d) leased assets	(37)	(156)
(e) staff costs	(3,791)	(17,987)
(f) administration and corporate costs	(826)	(2,506)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	12	24
1.5 Interest and other costs of finance paid	(50)	(231)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	69	384
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>1,103</b>	<b>(472)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(437)	(1,143)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 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)	(92)	(92)
<b>2.6 Net cash used in investing activities</b>	<b>(529)</b>	<b>(1,235)</b>

<b>3. Cash flows from financing activities</b>		
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	2,500	6,000
3.6 Repayment of borrowings	(2,700)	(4,750)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	(164)	(319)
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(364)</b>	<b>931</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	2,851	3,722
4.2 Net cash from / (used in) operating activities (item 1.9 above)	1,103	(472)
4.3 Net cash used in investing activities (item 2.6 above)	(529)	(1,235)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(364)	931

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	(199)	(85)
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>2,862</b>	<b>2,862</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	2,862	2,851
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,862</b>	<b>2,851</b>

**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

<b>Current quarter \$A'000</b>
202
-

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

<b>Current quarter \$A'000</b>
-
-

N/A

8. <b>Financing facilities available</b> <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	15,000	11,000
8.2 Credit standby arrangements	-	-
8.3 Other (capitalised interest)	3,333	2,558
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, \$2.0 million has been repaid (\$0.2 million was r-paid in Q4 FY18), with the facility balance now \$8.0 million with a capitalised interest cap of \$3.3 million (of which \$2.6 million is utilised). 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 7.3%.

A \$3 million Export Contract Loan (ECL) was created with Efic in June 2017. This short term facility was increased in June 2018 to \$7 million to fund working capital for JSF growth in FY19. At 30 June, \$3 million was drawn down. The business re-paid and re-drew \$2.5 million under this facility in Q4 FY18. The current interest rate is 7.9% plus a 1.5% commitment fee on any undrawn funds.

Quickstep commenced an additional \$2 million secured loan facility with Dorrigo Capital Pty Ltd in November 2017. The facility was available to 27 May 2018 but was repaid in Q3 FY18 and no further funds were drawn in Q4 FY18.

9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	(675)
9.2 Product manufacturing and operating costs	(8,780)
9.3 Advertising and marketing	(150)
9.4 Leased assets	(40)
9.5 Staff costs	(4,800)
9.6 Administration and corporate costs	(800)
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>(15,245)</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	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: 30 JULY 2018.

**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.