



CARBON REVOLUTION LIMITED
(ASX: CBR)

ASX Announcement

22 January 2021

CARBON REVOLUTION Q2 FY21 QUARTERLY ACTIVITIES REPORT & APPENDIX 4C (UNAUDITED)

Geelong, Australia, 22 January 2021: Geelong-based advanced manufacturer Carbon Revolution Limited (ASX:CBR), whose lightweight carbon fibre wheels are used on some of the world's best cars, is pleased to provide a business update for the quarter ended 31 December 2020 (Q2 FY21).

Q2 FY21 Highlights (unaudited)

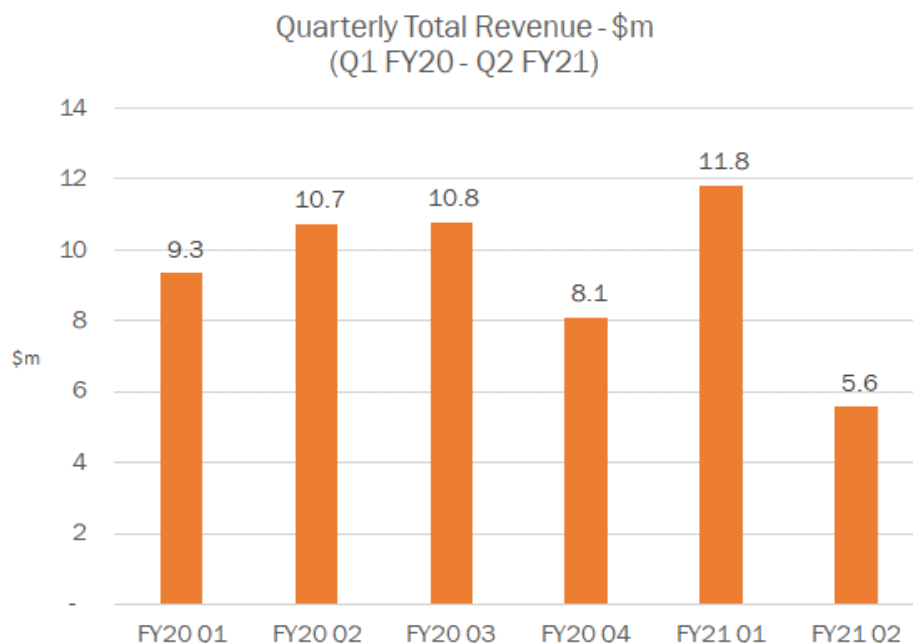
- Consistent with prior announcements, quarterly revenue was negatively impacted by issues related to COVID-19. Wheel sales growth is expected to return in the second half of FY21.
- The Company expects award of new programs and extensions of existing programs in the next six months which will underpin investment in the first Mega-line.
- Progress with industrialisation is on track, including commissioning of a new automated face layup line completed during the quarter. The initial design phase of the Mega-line is complete.
- Commenced first sales of wheels with the fascia technology for our largest program
- Refinancing of the Ronal facility was completed, delivering a lower cost of debt.
- Net cashflow from operating activities was positive in the quarter (including grants and reduction in work-in-progress) and we expect that net cashflow from operating activities will be positive in H2 FY21.

Revenue

Consistent with Carbon Revolution's expectation, and as previously announced, the Company's first half FY21 sales to one OEM were impacted by issues related to COVID-19. Although some of this impact was realised in Q1 FY21, there was a greater impact to revenue in Q2 FY21. We expect that wheel sales growth will return in the second half of FY21.

Quarterly revenue was \$5.6m, a 52.8% decrease on Q1 FY21 and a 48.1% decrease from the previous corresponding period (Q2 FY20). The quarter's revenue was also subject to manufacturing seasonality on another key customer program. The prior quarter (Q1 FY21) included \$4.5m of revenue recognised from wheels in transit held over from Q4 FY20. Quarterly wheels sold were 1,972, a decrease of 55.4% from Q1 FY21 and 43.1% from Q2 FY20. Consistent with the Company's expectations, for the half year to 31 December 2020, 6,397 wheels were sold, a reduction of 5.4% on H1 FY20.

There was \$0.6m in engineering services and tooling revenue for the quarter. Engineering services and tooling revenue will remain variable from quarter to quarter.



Program Lifecycle Summary

There has been strong engagement from both existing and new customers on business development activities. Discussions are progressing on a range of programs from smaller, performance-oriented programs through to much larger programs. These discussions include a number of electric vehicle programs.

The expected lower cost and increased capacity of the Mega-line manufacturing process is a key part of securing larger programs. The design of the Mega-line manufacturing process has progressed significantly and is now ready to proceed once new programs are awarded. The Company expects that significant new programs will be secured in the next 6 months and these new programs will underpin the decision to invest in the first mega line. This demand for Mega-line capacity is anticipated to come from both existing and new customers.

Stage of Program Lifecycle		Number of Programs
Awarded programs in production during Q2 FY21		6
Programs in development	Awarded	5
	Under engineering order	1
<i>Programs entering run out during FY21</i>		3
<i>Awarded programs planned to enter production in FY21</i>		2

Runout of two programs was completed during the quarter with these programs now entering the after-sales (spare parts) support stage of their program life. In addition, there remains one other program still in runout during FY21.

Research and development (R&D) activities progressed well in the quarter on both customer programs and technology development. A number of awarded programs are currently in the key design validation phase where prototype parts undergo extensive testing according to customer specifications. This includes the previously discussed Premium SUV program (awarded) and Asian OEM program (under engineering order).

Operational Progress

The operational focus during the quarter was on implementing the new fascia technology and reducing inventory through driving wheel finishing activities. This fascia technology dramatically improves the conversion of moulded wheels to sold wheels and, in turn, drives a significant reduction in labour cost per wheel and increased product quality.

During the quarter, commercialisation of the new fascia technology was achieved, with sales of fascia wheels commencing for our largest program in production. This program experiences customer manufacturing seasonality in the Northern Hemisphere winter so the model year production volume ramp only commenced late in the quarter. Notwithstanding this, the quality and flow benefits of the fascia technology were clearly evident, putting the business on a strong footing as production volume increases in coming quarters. Achieving this milestone within the short timeframe, and with the operational challenges arising from COVID-19 experienced in 2020, is a significant achievement for our team.

The introduction of fascia is a key contributor to the reduction in wheel work-in-process (WIP) inventory being achieved. Overall wheel WIP inventory reduced by almost 1,600 wheels in the quarter (including a reduction of wheels in transit) taking the WIP inventory reduction for the half year to over 3,100 wheels. In conjunction with the COVID-19 related demand reduction in FY21, this focus on WIP inventory reduction meant the wheel moulding rate moderated further during the quarter, with 1,007 wheels moulded during Q2 FY21.

Progress was also made on deploying the fascia technology to other programs.

The Company adopted a third-party logistics model for key raw material sourcing during the quarter. This model adopts just-in-time principles improving inventory visibility and reducing levels of stock on hand.

In addition to the key milestone achieved on fascia implementation, the following industrialisation activities were achieved during the quarter:

- Completed commissioning of the automated face lay-up conveyor line – transitioning this key lay-up process to physical, rather than virtual conveyors, and with additional automation of manual processes. Production commenced during the quarter with the benefits of standardised work and automation being immediately evident in both cycle times and labour productivity.
- Our big data platform was integrated into the factory enabling us to quickly visualise our factory data to discover trends and improve performance. We are rolling out advanced vision inspection systems which use artificial intelligence (AI) to detect issues at the earliest point possible for the most efficient remediation.
- Commissioned the second thermal barrier coating cell – providing additional capacity reducing reliance on suppliers and additional automation reducing cost for this stage of production.

These activities complement other industrialisation activities undertaken this year, including expansion of high pressure moulding capacity and automated preforming. These automated manufacturing processes are the key building blocks of the Mega-line technology. Significant progress was made on the development of the Mega-line manufacturing process, which will combine these automated manufacturing processes with automated part flow and advanced automation in order to deliver step-changes to both capacity and cost reductions. The Mega-line has been designed using an inhouse team deploying state of the art advanced 3D and simulation tools to reduce risk during the design, construction and commissioning phases. The

initial design phase for the Mega-line is complete allowing the commencement of sourcing with our project partners.

The implementation of a new enterprise resource planning system is progressing well with go-live expected during Q3 FY21 and development of an integrated human resource management system following a similar timetable. These transformational activities enable the support, management and reporting functions to efficiently scale as production volume increases over the coming years.

Cash Position

The Company's cash balance is \$15.4m. Net cash outflow of \$4.2m for the quarter was in-line with the Company's expectations and included:

- Positive net cashflow from operating activities (including Government grants) of \$3.1m was an \$8.2m improvement on Q1 FY21. Positive operating cashflow was driven by a reduction in product manufacturing costs due to a strong focus on finishing work in progress wheels. This focus on managing inventory will continue in H2 FY21 as production volumes increase in response to increased customer demand. Operating cashflow included Government grants in Q2 FY21 of \$6.8m.
- Net cashflow used in investing activities of \$5.0m, reducing in-line with the Company's expectations from \$8.8m in Q1 FY21. Investing activities cashflow consists primarily of investment in production assets and research and development (classified in the Appendix 4C as "other non-current assets"). The level of investment in production assets reduced to \$2.8m with the required current production capacity now in place.
- Net cash outflow from financing activities of \$2.3m driven by a \$2m repayment of the State of Victoria grant advance which offset the \$2m milestone payment described in operating cashflow. The net cash effect of the State of Victoria grant milestone achievement and offsetting advance repayment was zero for the quarter.

Execution and settlement of the \$13m three-year term debt facility with Export Finance Australia (EFA) and repayment of the existing \$13m term loan previously held with Ronal AG was completed during the quarter, delivering a substantial interest cost saving. Working capital facilities to augment this term loan, and support future growth, are currently being explored with a number of financiers.

During the quarter, payments were made to related parties in the form of Directors Fees.

Outlook

The business continues to monitor the local and global impacts and risks related to COVID-19. There remain uncertainties arising from the ongoing impacts of COVID-19 and the automotive industry's response in the near-term. On the basis of all currently available information, the Company expects to deliver strong sales growth in FY21.

In addition to the benefits of reducing the cost per wheel progressively during FY21, cash flow is expected to be positively impacted by:

- Continued release of COVID-19 related raw material safety stock buffer held in inventory, as global supply chains stabilise, with an almost \$2m benefit expected to be realised from reducing raw materials and consumables throughout the year.
- Ongoing reduction of wheel inventory due largely to the new fascia technology allowing moulded wheels to be finished and possibly through selling wheels through further painted programs. Overall wheel inventory is expected to reduce by at least a further 1,000 wheels in the remainder of FY21.

- Net cashflow from operating activities (including grants and reduction in work-in-progress) will be positive in H2 FY21.
- Expansion capital requirements have reduced as the current industrialisation assets have been largely commissioned and the business now has sufficient capacity for awarded programs. As planned, over half of the year's cash outflow for equipment capital expenditure occurred in H1 FY21.
- R&D has reduced from previous highs to more normal levels as key fascia R&D has been completed.

We continue to focus on investing in new programs and the long-term demand for the technology is strong. The Company expects award of new programs and extensions of existing programs in the next six months which will underpin investment in the first Mega-line.

ABOUT CARBON REVOLUTION

Carbon Revolution is an Australian company, which has successfully innovated, commercialised and industrialised the supply of carbon fibre wheels to the global automotive industry. The Company has progressed from single prototypes to designing and manufacturing high-performing wheels for some of the fastest street cars and most prestigious brands in the world. Carbon Revolution continues to innovate and supply its lightweight wheel technology to automotive manufacturers around the world.

Performance is everything. Efficiency is everything else.

For more information, visit carbonrev.com

FORWARD-LOOKING STATEMENTS

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Carbon Revolution. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

Approved for release by the Board of Directors of Carbon Revolution Limited.

INVESTOR CONTACT

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INVESTOR BRIEFING

The accompanying investor and analyst briefing will be at 9.30am (AEDT) on Friday 22nd January 2021. To pre-register for this event please use the following link:

https://carbonrev.zoom.us/webinar/register/WN_5RQDuGG3T5qzV0VIA5af7A

Registered participants will receive a calendar invite and meeting link (and dial in number if required) which is to be used when connecting.

A recording of the briefing will be made available on the Carbon Revolution Investor Centre website: <https://investors.carbonrev.com/Investor-Centre/>

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Carbon Revolution Ltd

ABN

96 128 274 653

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	7,029	20,136
1.2 Payments for:		
(a) research and development	(774)	(1,703)
(b) product manufacturing and operating costs	(4,204)	(18,944)
(c) advertising and marketing	(89)	(132)
(d) leased assets	(80)	(161)
(e) staff costs	(4,003)	(7,278)
(f) administration and corporate costs	(1,060)	(1,908)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	18	61
1.5 Interest and other costs of finance paid	(554)	(960)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	6,787	8,897
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	3,070	(1,992)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses (see item 10)		
	(c) property, plant and equipment	(2,783)	(9,742)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	(2,252)	(4,120)
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 from / (used in) investing activities	(5,035)	(13,862)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities, or convertible debt securities	-	-
3.5	Proceeds from borrowings	13,000	13,000
3.6	Repayment of borrowings	(15,000)	(15,000)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
3.9	Other (provide details if material)	(256)	(566)
3.10	Net cash from / (used in) financing activities	(2,256)	(2,566)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	19,635	33,861
4.2	Net cash from / (used in) operating activities (item 1.9 above)	3,070	(1,992)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5,035)	(13,862)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(2,256)	(2,566)
4.5	Effect of movement in exchange rates on cash held	(6)	(33)
4.6	Cash and cash equivalents at end of period	15,408	15,408

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	15,408	14,635
5.2	Call deposits	-	5,000
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)	15,408	19,635

6. Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	228
6.2 Aggregate amount of payments to related parties and their associates included in item 2	0

Description & explanation of payments above:

Comprises Non-Executive and Executive Directors fees inclusive of superannuation for the quarter. No other payments made to related parties or their associates.

7. 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
7.1 Loan facilities	16,500	16,500
7.2 Credit standby arrangements	-	-
7.3 Other – Financed Insurance Premiums	-	-
7.4 Total financing facilities	16,500	16,500
7.5 Unused financing facilities available at quarter end	-	-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well

Loan facilities totally \$16.5m comprises:

- Secured loan with Export Finance Australia at an interest rate of 5.3% per annum, interest repayable quarterly. Principal repayable over 3 years quarterly.
- Secured grant advance from the State of Victoria of \$3.5m – fixed facility fee of \$37,500 per month. Repayable 30 June 2021, however it is possible at the discretion of the State of Victoria for the Company to retain the whole or part of the early advance used for the Project and to be potentially fully set-off against grant moneys which become due to the Company. The next grant offset of \$3.5m is expected in Q4 FY21.

There are also two lease agreements in place, being:

- Monthly rental of the production facility in Waurm Ponds (10 year lease with current monthly lease payments of \$69,824)
- Monthly rental of production equipment (12 month lease with current monthly lease payments of \$26,959)

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from/(used in) operating activities (item 1.9)	3,070
8.2	Cash and cash equivalents at quarter end (item 4.6)	15,408
8.3	Unused finance facilities available at quarter end	-
8.4	Total available funding (item 8.2 + item 8.3)	15,408
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	Not applicable
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
1.	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not? Not applicable	
2.	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful? Not applicable	
3.	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis? Not applicable	

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.

Date: 22 January 2021

Authorised by: The Board of Carbon Revolution Ltd

Notes

1. The quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose

additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here “By the Board”. If it has been authorised for release to the market by a committee of your Board of Directors, you can insert here “By the [name of the board committee - eg Audit and Risk Committee]”. If it has been authorised for release to the market by a disclosure committee, you can insert here “By the Disclosure Committee”
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with Recommendation 4.2 of the ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, the Board should have received a declaration from its CEO and CFO that in their opinion, the financial records of the entity have been properly maintained, that the report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.