

27 July 2016

# Quarterly Report

## To 30 June 2016

### HIGHLIGHTS

#### FINANCIAL PERFORMANCE

##### **FY16 Sales exceed \$50 Million, ahead of expectations**

- Sales of \$50.1 million for FY16, with Q4 sales of \$14.5 million
- Firm order book of \$125 million at 30 June 2016
- Cash of \$7.6 million

##### **Increased capital spend to support Aerospace growth and New Technology**

- Ongoing capital program to support JSF expansion; \$1.1 million investment in Q4
- Full year capital spend of \$3.4 million across Bankstown and New Technology

#### AEROSPACE MANUFACTURING

##### **Lockheed Martin C-130J production continued at 3 per month**

- 9 ship-sets delivered in Q4 for a total of 35 for the financial year

##### **Joint Strike Fighter (JSF) production continues to grow**

- 143 parts delivered in Q4, and 558 parts for the year
- JSF vertical tail spars and skins commenced delivery with 20 VT parts delivered in the quarter
- Total of 590 parts produced for the JSF program in FY16, 27% increase on previous corresponding period (pcp)

#### NEW TECHNOLOGY

##### **Quickstep signs Memorandum of Understanding with DCNS**

- Extends Quickstep's markets into marine defence, enabling potential participation in SEA 1000 submarine program

##### **Thales Hawkei vehicle program**

- First parts for Thales Australia's Hawkei completed using resin spray transfer (RST) technology

##### **Ford Falcon XR6 production under way**

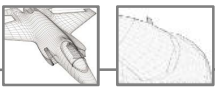
- 377 carbon fibre air intake ducts manufactured

##### **Korean Institute of Science and Technology (KIST) contract**

- Qure and RST system sale to KIST as part of development opportunity with South Korean industry

##### **Quickstep begins new development projects**

- New development projects commenced with two leading vehicle manufacturers, a global aircraft manufacturer, tier-1 industry suppliers and DCNS



## **1.0 FINANCIAL PERFORMANCE**

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### **1.1 STRONG SALES PERFORMANCE**

Deliveries against Quickstep's F-35 Lightning II Joint Strike Fighter (JSF) and C-130J Hercules purchase orders continued according to plan. Sales for the fourth quarter of FY16 were \$14.5 million, including \$1.7 million relating to production automation for C-130J. Following commencement of manufacturing for Ford Australia, commercial automotive production contributed to sales for the first time. Sales for the year to 30 June 2016 were \$50.1 million, up 27% compared to the previous corresponding period (pcp).

### **1.2 FIRM ORDER BOOK**

At 30 June 2016, Quickstep's firm order book value increased to be in excess of \$125 million. This includes purchase orders extending through to 2019.

## **2.0 AEROSPACE MANUFACTURING**

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### **2.1 LOCKHEED MARTIN C-130J ADDITIONAL VOLUMES DELIVERED**

Quickstep is the exclusive supplier of composite wing flaps to Lockheed Martin for the C-130J Hercules aircraft under a five-year Memorandum of Agreement (MoA) valued at US\$75 million. Discussions are underway with Lockheed Martin to extend the production activities beyond 2020.

During the quarter 9 ship-sets were delivered, taking production to 35 ship-sets for the year. C-130J volumes are now expected to return to the normalised long term production rate of two ship-sets per month. In FY16 Quickstep has delivered 11 additional wing flap sets to the program to support historical accumulated spare parts demand.

### **2.2 INCREASING JSF PRODUCTION**

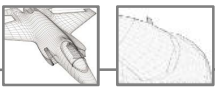
The JSF Program is the world's largest defence aerospace program, and Quickstep is the sole supplier globally to Northrop Grumman for 21 JSF components including doors, panels, skins and other composite parts. In Q4 FY16 Quickstep delivered 143 parts. The JSF program is accelerating and is expected to increase significantly over the next three years.

Having completed qualification for vertical tail fairings, spars and skins, JSF vertical tail deliveries have now commenced to Marand Precision Engineering. Under the agreement with BAE and Marand, Quickstep plans to supply 700 sets of composite parts including skins, spars and fairings over the next 14 years.

### **2.3 EXPANSION AT BANKSTOWN AIRPORT**

The ongoing capital expenditure program at Bankstown Airport to accommodate higher levels of JSF production continued in the fourth quarter. During Q4 Quickstep invested \$1.1 million.

Quickstep continues to progress discussions and product development with current customers and other aerospace original equipment manufacturers (OEMs) regarding new opportunities.



## **3.0 NEW TECHNOLOGY**

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### **3.1 MoU SIGNED WITH DCNS GROUP**

In June, Quickstep signed a Memorandum of Understanding (MoU) with DCNS Group, the largest shipbuilder in France, which was selected by the Australian Government as its preferred international partner for the design of twelve submarines for the Royal Australian Navy. The MoU enables participation in supply chain contracts for the new SEA 1000 Future Submarine Program and formalises DCNS' and Quickstep's cooperation in the manufacturing of components and assemblies using advanced composite materials.

This MoU takes Quickstep into the marine defence industry, which is a natural extension of its technology and complements its involvement in the JSF F-35 Program, the world's largest defence aerospace program.

A joint Quickstep / DCNS committee will consider parts and projects which are most relevant to implementation of Quickstep's technology. Over the next twelve months, the company expects to develop and manufacture demonstration parts. Testing of Quickstep's process technologies for naval applications may lead to the production of components for DCNS' submarine program for Australia and other markets.

### **3.2 FORD FALCON XR6 SPRINT PRODUCTION**

Quickstep has completed 377 carbon fibre air intake ducts for the Ford Falcon XR6 Sprint, and production is ongoing. The Ford Motor Company is Quickstep's first automotive original equipment manufacturer production client.

### **3.3 THALES AUSTRALIA HAWKEI LIGHT ARMoured VEHICLE**

Quickstep has completed the first set of composite parts for Thales Australia's Hawkei light protected vehicle using its resin spray transfer technology. Quickstep is the exclusive supplier of Hawkei bonnet, side skirts and mud guards, and expects to deliver ten sets of parts - comprising more than 150 individual components - for testing by end-September 2016.

### **3.4 NEW TECHNOLOGY SITES UPDATE**

#### ***Wauran Ponds, Victoria***

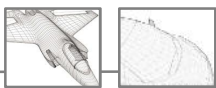
The Wauran Ponds facility is now in production, and features a fully operational RST cell, clean room, small and large ovens and a carbon fibre trimming cell. Installation of a full-scale Qure cell is now complete and demonstration parts are being produced. The global R&D Centre is working to expedite the Qure process to support volume production in excess of 10,000 parts per annum. In addition, a number of projects are currently underway in Wauran Ponds for product development programs.

#### ***Ottobrunn, Germany***

The Qure cell at the Ottobrunn facility has been upgraded. Quickstep has a number of active material (resin and carbon fibre) qualification programs in partnership with both OEM automotive clients and Tier 1 suppliers.

### **3.5 QUICKSTEP SECURES SOUTH KOREAN RESEARCH INSTITUTE CONTRACT**

Quickstep has secured a new sales contract with the Korean Institute of Science and Technology (KIST), the multi-disciplinary research institute which has had a significant role in the development of South Korea's growing carbon fibre composite materials industry. KIST is based in Seoul and will use the Qure system to extend its research in the field of composite materials science, expediting its research goals.



Quickstep will develop and supply composite manufacturing equipment, including its RST and Qure machine technologies, which KIST will use to develop prototype, demonstrator and niche-volume composite parts. Delivery is expected to be completed by the end of 2016.

### **3.6 NEW DEVELOPMENT PROJECTS**

Quickstep has commenced a number of development projects which may lead to production parts manufacturing contracts. Commercialisation of Quickstep's Qure and RST technologies and product development and the associated investment in R&D and product development will continue throughout FY17.

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## **4.0 CORPORATE**

### **4.1 CASH POSITION**

At the end of the quarter, the consolidated group cash balance was \$7.6 million and the company held, in addition, \$1.0 million in restricted term deposits to be held to maturity. Net assets at 30 June 2016 were \$16.1 million. Note that \$0.6 million was due from a major customer by end of June, but received early July. If received in line with terms, the cash balance would have finished at \$8.2 million.

### **4.2 CASHFLOW**

Operating cash outflow for Q4 was \$3.4 million, reflecting an increase in inventory of \$1.6 million, higher R&D spend and costs associated with the commencement of VT production. Cashflow was also negatively impacted \$0.6 million by the customer payment not received as per above. Total inventory has increased due to increasing sales plus safety stock to ensure there is no disruption to the JSF Program while capital expansion at Bankstown is underway. Inventory was also impacted by work in progress for the KIST project and a number of finished goods completed late in June that were delivered and invoiced in July.

The full year operating cash outflow was \$5.5 million, reflecting the additional inventory build in the second half.

### **4.3 FINANCIAL OUTLOOK**

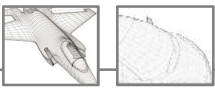
FY16 sales were strong at \$50.1 million. FY17 should see total sales grow at a more modest rate as JSF-related sales continue to increase but are offset by C-130J volume moving to longer term production levels. R&D and product development costs are expected to increase in FY17 as the company pursues new business opportunities.

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## **5.0 OUTLOOK**

Quickstep's long-term goal is to become a world leader in advanced composites manufacturing and the company is focused on expanding its business in the aerospace, defence, automotive and transport sectors.

The company continues to focus on increasing its market share as a product manufacturer. Investments will be increased in both the Bankstown Aerospace manufacturing facility and product development for New Technology applications in Waurn Ponds and Germany. The priority for new technology is to convert current development projects into new orders for components. This is expected to occur in the next 12-24 months as the company progresses through the product development phase.



The company's near-term goals are:

## 1. Aerospace Manufacturing

- Meeting growth demand in the ramp-up of JSF Vertical Tail production
- Pursuing new Aerospace manufacturing contracts and increasing operational efficiency at Bankstown to enhance profitability on invested assets
- Increasing manufacturing output and securing increased orders for the JSF
- Maintaining production and securing new long term orders of C-130J wing flaps

## 2. New Technology

- Delivering additional contracts with aerospace, automotive and marine OEMs which offer a scalable approach to the broader global market
- Working with OEMs and Tier-1 industry suppliers for engineered automotive and aerospace solutions in seat structures, wing skins and exterior panel componentry
- Manufacturing parts for the Thales Hawkei vehicle
- Focus on development of optimised material solutions
- Increasing the Qure and RST technologies' production capability
- Continuing development of the RapidQure technology

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-ENDS-

### For further information:

#### Investors

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### 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 and Airbus.

Quickstep operates from state-of-the-art aerospace manufacturing facilities at Bankstown Airport in Sydney, NSW; a newly established production site for automotive parts manufacturing and R&D/ process development centre in Waurn Ponds, Victoria; and a development and customer support operation in Ottobrun, Germany.

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 C-130J "Super Hercules" military transport aircraft.

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

Automotive activities include contracts with Ford Australia for a carbon fibre air intake duct and the development and supply of a range of composite parts and assemblies for the Thales Hawkei military vehicle.

# Appendix 4C

## Quarterly report for entities admitted on the basis of commitments

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

Name of entity

**QUICKSTEP HOLDINGS LIMITED**

ABN

**55 096 268 156**

Quarter ended ("current quarter")

**30 JUNE 2016**

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	11,459	48,563
1.2 Payments for		
(a) staff costs	(3,490)	(15,180)
(b) advertising and marketing	(27)	(183)
(c) research and development	(1,025)	(3,145)
(d) leased assets		-
(e) other working capital	(10,974)	(36,203)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	10	79
1.5 Interest and other costs of finance paid	(83)	(461)
1.6 Income taxes paid	-	-
1.7 Other (government grants)	774	1,078
<b>Net operating cash flows</b>	<b>(3,356)</b>	<b>(5,452)</b>

+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

	Current quarter	Year to date (12 months)	
	\$A'000	\$A'000	
1.8	Net operating cash flows (carried forward)	(3,356)	(5,452)
<b>Cash flows related to investing activities</b>			
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets*	(1,285)	(3,362)
	(e) other non-current assets <i>*including in-house asset construction</i>	-	
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	-
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	-
1.12	Loans repaid by other entities	-	-
1.13	Other (proceeds from term deposits)	(179)	(179)
	<b>Net investing cash flows</b>	<b>(1,464)</b>	<b>(3,541)</b>
1.14	<b>Total operating and investing cash flows</b>	<b>(4,820)</b>	<b>(8,993)</b>
<b>Cash flows related to financing activities</b>			
1.15	Proceeds from issues of shares, options, etc.	-	20,947
1.16	Proceeds from sale of forfeited shares	-	-
1.17	Proceeds from borrowings	-	-
1.18	Repayment of borrowings	(500)	(5,500)
1.19	Dividends paid	-	-
1.20	Other, Finance lease payments	(31)	(101)
	<b>Net financing cash flows</b>	<b>(531)</b>	<b>15,345</b>
	<b>Net increase (decrease) in cash held</b>	<b>(5,351)</b>	<b>6,352</b>
1.21	Cash at beginning of quarter/year to date	12,710	1,212
1.22	Exchange rate adjustments to item 1.20	230	25
1.23	<b>Cash at end of quarter</b>	<b>7,589</b>	<b>7,589</b>

\* Investments in term deposits with an original maturity of greater than 3 months are cash flows related to investing activities. These deposits do not meet the strict definition of a cash equivalent within AASB 107 Cash Flow Statements hence do not form part of Cash at the end of quarter. As at 30 June 2016, the total of Cash and investments in restricted term deposits is \$964k. (31 March 2016: \$784k).

## Payments to directors of the entity and associates of the directors

### Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	205
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

		\$A'000
-	Executive and Non-Executive Directors' remuneration (Item 1.24)	205

## Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A
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2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A
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## Financing facilities available

*Add notes as necessary for an understanding of the position.*

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	13,333	11,222
3.2	Credit standby arrangements	NIL	NIL

Loan facilities include:

- A fully drawn \$10,000k facility with additional capability to capitalise interest up to \$3,333k which is partly utilised.

+ See chapter 19 for defined terms.



**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

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**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
4.1	Cash on hand and at bank	7,589	12,710
4.2	Deposits at call	-	-
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.23)</b>		<b>7,589</b>	<b>12,710</b>

As at 30 June 2016, the total of cash and investments in restricted term deposits is \$964k. (31 March 2015: \$784k).

**Acquisitions and disposals of business entities**

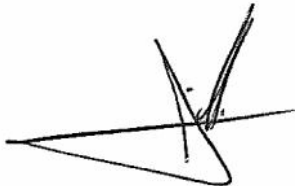
		Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	NIL	NIL
5.2	Place of incorporation or registration		
5.3	Consideration for acquisition or disposal		
5.4	Total net assets		
5.5	Nature of business		

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+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: ..... Date: 27 July 2016  
(Company secretary)

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.