

THIRD QUARTER FY19 UPDATE

18 April 2019: Quickstep Holdings Limited (ASX: QHL), Australia's leading independent carbon fibre composites manufacturer, today announced its quarterly update for the third quarter of FY19.

MARCH 2019 QUARTER SUMMARY (Unaudited)

- › **Total sales \$16.5 million, up 13% on same period in FY18**
- › **YTD sales \$50.4 million, up 19% on same period FY18**
- › **Operating cash flow \$0.9 million for Q3 FY19**
- › **Positive NPAT to 31 March 2019**
- › **Healthy pipeline of new business, with new contracts anticipated in 2019**
- › **Chemring flare housing project now in equipment implementation phase**

FINANCIAL UPDATE

Quickstep delivered continued sales growth in Q3 compared to the same period last year with sales revenue of \$16.5 million, up 13% compared to \$14.6 million in Q3 FY18. Sales for the nine months to the end of March 2019 of \$50.4 million were 19% improved on the prior year. Quickstep remains on track to deliver significantly higher Joint Strike Fighter (JSF) volumes over the next 18 months, with JSF revenue expected to increase approximately 40% in FY19.

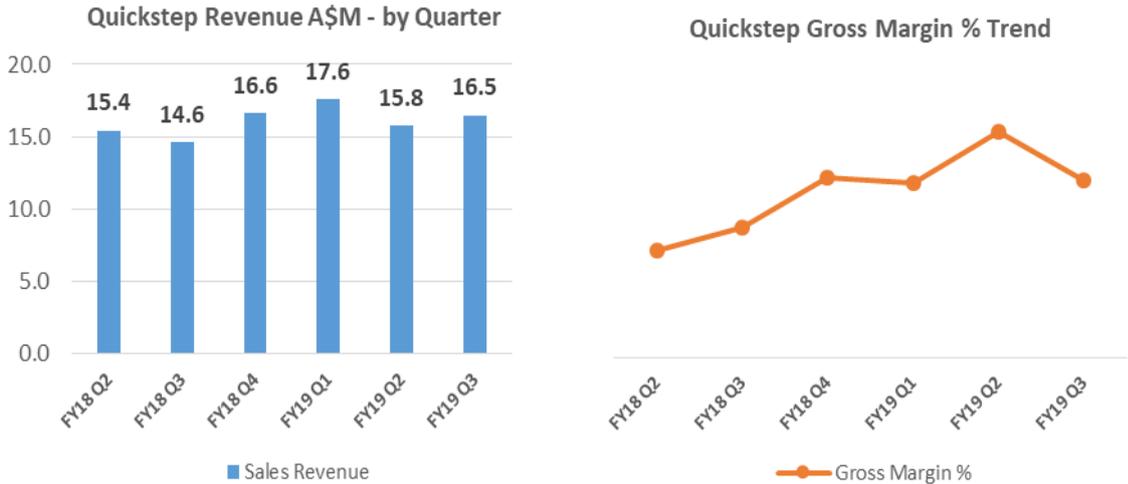
The key machine tool failure outlined in our half year results announcement was resolved part way through the quarter but remained a drag on performance well into Q3, impacting productivity and therefore gross margin %. An improved operational performance and lift in gross margin % is expected in Q4 including benefits from process improvements identified during the outage.

The business achieved positive NPAT for the 9 months to 31 March 2019 and expects to deliver positive NPAT for FY19.

Operating cashflow of \$0.9 million for Q3 FY19 includes EBITDA \$0.7 million and a \$2.4 million increase in working capital offset by a \$3 million increase in net deferred income. The working capital increase included an increase of \$1.6 million in inventory (largely raw materials) due to production delays from the machine failure and to support the ramp up in production in Q4 FY19. As production increases in Q4 the inventory balance will normalise resulting in improved cashflow.

At 31 March 2019, the group held \$7.6 million in cash (31 December 2018: \$3.2 million) and \$0.8 million in restricted term deposits (31 December 2018: \$0.8 million). Total outstanding debt, including capitalised interest, was \$10.3 million at 31 March 2019. This was a decrease of \$5.2 million from 31 December 2018 following repayment of the short term working capital facility subsequent to the \$10.6 million placement.

SALES REVENUE AND GROSS MARGIN TREND



Operational Highlights:

- ▶ **Lean and Continuous Improvement:** initiatives continued across all functions at the Bankstown and Geelong sites in Q3 to improve efficiency, reduce cost and improve margins. Initiatives undertaken by our process improvement teams in Q3 include improvements to production cycle times, visual management, process mapping and the introduction of new workplace organisation methods. The benefits of which will be enjoyed in Q4 and beyond.
- ▶ **QPS:** Quickstep has entered into the equipment implementation phase for the Chemring project with machinery and tooling in the final phases of manufacture and testing prior to being delivered into the Bankstown site. The result will be a leading manufacturing cell that demonstrates “cutting edge” high volume carbon fibre production methods with integrated quality control and product traceability for high performance and precision products.
- ▶ **Qure:** Based on the successful internal testing for Qure 2.5 bar to aerospace qualifications, Quickstep has commenced the manufacture of test plaques that will be tested by an independent aerospace laboratory and a major global material systems company. The objective is to validate Qure 2.5 at dramatically reduced cycle times to standard autoclave process to meet aerospace qualification requirements while delivering multiple processing benefits.

Business Development Highlights:

- › **General Atomics:** General Atomics, the leader of the Team Reaper Australia Consortium, has been selected by the Australian Government to provide the Armed Remotely Piloted Aircraft System under Project Air 7003 for the Australian Defence Force (ADF). Quickstep is a member of this consortium and looks forward to negotiations with General Atomics on substantial composite manufacturing packages.
- › **US Market:** Quickstep has a clear focus on the US market (defence and commercial aerospace segments) and continues to make significant investment in business development and supply chain resources there. Based on the progress of confidential negotiations we expect to see significant new business awards during the remainder of 2019.

These activities and others currently in discussion, 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

Quickstep's revenue will grow strongly over the remainder of FY19 as it recovers from the extended key machine failure. JSF deliveries will continue to ramp up towards peak production volumes over the next 12 months. The group's revenue is expected to grow by more than 22% in FY19, following a strong fourth quarter, and gross margins will improve year on year as the group benefits from economies of scale and increasing efficiencies. The group expects to deliver positive EBIT and positive NPAT for FY19 as well as positive operating cash flow.

Quickstep has significant growth potential through winning composite manufacturing contracts, primarily in the aerospace sector, using traditional techniques and its proprietary advanced manufacturing Qure and QPS technologies; these provide faster, more controllable methods for curing of parts and enable a Class A finish. Quickstep continues to focus on winning new customers and contracts, and supporting growth through partnerships to build scale. Quickstep will further accelerate its business development activities to win additional business, through its tiered growth strategy:

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

The company has a healthy project pipeline and is well positioned for future profitable growth. The group continues to be focused on high value, expanding global markets.

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‣ Memorandum of Understanding (MoU) in place for a Long Term Flexible Contract (LTFC) for the ongoing supply of C-130J/LM-100J wing flaps for an additional five-years, covering 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 240 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 2019

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	16,668	50,272
1.2 Payments for		
(a) research and development	(182)	(601)
(b) product manufacturing and operating costs	(9,345)	(29,812)
(c) advertising and marketing	(52)	(143)
(d) leased assets	(19)	(58)
(e) staff costs	(5,759)	(16,793)
(f) administration and corporate costs	(350)	(2,790)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(106)	(283)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	855	(208)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1,025)	(3,160)
(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-customer funding for capital project	-	1,855
2.6 Net cash used in investing activities	(1,025)	(1,305)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	10,625	10,625
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	(501)	(501)
3.5 Proceeds from borrowings	2,000	5,250
3.6 Repayment of borrowings	(7,500)	(9,000)
3.7 Transaction costs related to loans and borrowings	-	(157)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	4,624	6,217

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	3,172	2,862
4.2 Net cash from / (used in) operating activities (item 1.9 above)	855	(208)
4.3 Net cash used in investing activities (item 2.6 above)	(1,025)	(1,305)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	4,624	6,217

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	(9)	51
4.6	Cash and cash equivalents at end of quarter	7,617	7,617

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	7,617	3,172
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)	7,617	3,172

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
192
-

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	14,400	7,392
8.2 Credit standby arrangements	-	-
8.3 Other (capitalised interest)	3,333	2,863
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 \$10m with additional capability to capitalise interest up to \$3.3m. To date, \$2.6 m has been repaid, with the facility now at \$7.4m with a capitalised interest cap of \$3.3m. The loan is secured with Efic (Export Finance and Insurance Corporation) as guarantor and the ANZ Bank as financier. Interest comprises a variable base rate, a fixed margin and guarantee. The effective interest rate is currently 7.2%.

A \$3 million Export Contract Loan (ECL) was created with Efic in June 2017. This short term facility was increased in June 2018 to \$7m to fund working capital for JSF growth in FY19. The current interest rate is 7.855% plus a 1.5% commitment fee on any undrawn funds. No funds are currently drawn under this facility.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(400)
9.2 Product manufacturing and operating costs	(12,661)
9.3 Advertising and marketing	(50)
9.4 Leased assets	(20)
9.5 Staff costs	(5,850)
9.6 Administration and corporate costs	(2,000)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(20,981)

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: 18 April 2019

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.