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Revenue up 13% as JSF Program activity grows

Sydney, 23 February 2018 – Quickstep Holdings (ASX:QHL), Australia’s leading independent manufacturer of advanced carbon fibre composites, today announced that total revenue for 1H FY18 was \$27.9 million, up 13% from \$24.6 million in the prior corresponding period (pcp).

Production for the Joint Strike Fighter (JSF) Program increased by 53% compared to the pcp. This reflected increased manufacturing of doors, panels and fuselage parts for Northrop Grumman, as well as vertical tail components for BAE Systems and Marand.

Manufacturing for Lockheed Martin’s C-130J aircraft was at the long-term production rate of approximately two ship-sets of wing flap components per month, in line with forecast and customer orders and 15% below the pcp when additional orders were filled.

Mark Burgess, CEO and Managing Director of Quickstep, said: “Revenue growth was in line with expectations and, following completion of the \$10 million capital expenditure program at Bankstown in FY17, we have the infrastructure in place to support future JSF production levels. JSF revenue will continue to increase in the second half of FY18. As JSF production increases in volume over the next two financial years it will drive significant productivity benefits.

“This is a year of transition for Quickstep as we implement the **OneQuickstep** change strategy. We now have a simplified management structure and board and an aligned strategy focused on high value, growing markets. We are confident of reducing costs by \$3.5 million in FY18 and have demonstrated our commitment through an executive pay freeze and continuing freeze on directors’ fees.

“Implementation of **OneQuickstep** is realigning the business to drive profitability and growth. We have completed closure of our German operations, consolidation of operations and R&D at Geelong, and exiting non-core programs including Quickstep’s contribution to the Hawkei project.

“**OneQuickstep** is also driving cultural and behavioural change, and we have changed our organisation structure to allow greater accountability, removing project silos. Through continuous improvement we are targeting world-class performance. Lean programs increasing efficiencies have commenced at Bankstown and Geelong and will contribute to better margins in addition to higher production volumes.”

New business growth

During the half Quickstep was awarded two new contracts from Boeing Defence to manufacture F-15 and F-18 aircraft components. These niche contracts provide a pathway to Boeing supplier accreditation, opening future business opportunities across the Boeing Company. Boeing is the world’s largest aerospace company and leading manufacturer of commercial jetliners, defence, space and security systems, and service provider of aftermarket support.

In September 2017, Quickstep joined the Team Reaper Australia consortium which is bidding to provide the Project AIR 7003 armed, medium altitude, long endurance remote piloted aircraft (RPA) systems for the Australian government. Team Reaper Australia is led by General Atomics Aeronautical Systems Inc, the world’s



leading manufacturer of remote piloted aircraft systems, and includes nine Australian companies providing a range of innovative sensor, communication, manufacturing and life-cycle support capabilities.

The establishment of a dedicated Business Development (BD) team in H1 FY18 has resulted in a number of opportunities now in the BD pipeline and will accelerate Quickstep's three-tiered approach to growth. The first tier 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. The second is new business opportunities in aerospace, automotive and other advanced industries utilizing Qure and QPS. The third tier is securing a large program or inorganic growth opportunities in defence, commercial aerospace and automotive.

The group remains focused on developing its Qure and QPS technologies. Manufacturing continued on production of parts for Micro-X's portable, ultra-lightweight x-ray device using Qure, and Quickstep also completed a successful trial of its automotive front fender project with a European original equipment manufacturer.

Quickstep is currently in the advanced stages of seeking a partner in Europe to extend its aerospace and defence and automotive sales and marketing capability.

Financial overview

Financial results for 1H FY18

Results summary – six months to 31 December	(\$m) 2017	(\$m) 2016	Change
Revenue	27.9	24.6	13%
EBITDA	(1.0)	(1.8)	45%
EBIT before R&D	(0.2)	(0.3)	46%
R&D (including new technology and product development)	2.1	2.5	(18)%
EBIT	(2.2)	(2.8)	21%
Net financing costs	(0.7)	-	n/a
Net loss	(2.9)	(2.8)	(6)%

Following implementation of the **OneQuickstep** program, research and development expenditure reduced to \$2.1 million, compared to \$2.5 million in the pcp. R&D expenditure in the second half will be lowered further, following the closure of the German office and consolidation of all R&D activities into Geelong.

Gross margin increased to \$3.4 million compared to \$2.9 million in 1H FY17, reflecting higher sales. Improvement is expected in the second half with benefits from increased JSF revenue, the group's lean efficiency programs and benefits from automated drilling for C-130J production.

In November 2017, Quickstep secured a \$2 million loan from Dorrigio Capital to fund **OneQuickstep** initiatives, new business growth and short-term working capital. Total loans at 31 December 2017 were \$15.6 million.

Quickstep anticipates positive cash flow in the second half of FY18 and as **OneQuickstep** initiatives assist margin and cash flow, also expects to report positive earnings before interest and tax (EBIT) in the second half of FY18.

Outlook

Quickstep has established a globally competitive position in the advanced composite solutions sector and has flagship aerospace and defence contracts in place. JSF production is scheduled to increase in the second half of FY18, and more than double in the period to end of FY20.



As the benefits of the **OneQuickstep** program flow through, the group expects to deliver positive EBIT in the second half of FY18, and in FY19. The group is focused on high value, expanding global markets. The carbon fibre composites market is expected to exceed US\$31 billion in value by 2024. Of this, approximately 61% is attributable to the aerospace and defence sector, which is Quickstep's most important market.

Mark Burgess said: "Quickstep has a strong order book and a proven position in the global aerospace and defence supply chain. Our immediate focus is accelerating growth and profitability, based on existing contract growth. However, we are building a globally competitive company with significant potential for expansion and have several promising new business opportunities in the aerospace, automotive and other advanced industries, using our proprietary technologies. JSF Program orders are set to expand significantly in the near future, and we are positive about Quickstep's future growth opportunities."

-ENDS-



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

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Appendix

More information about Quickstep's clients and partners:

BAE Systems: BAE Systems provides some of the world's most advanced, technology-led defence, aerospace and security solutions and employs a skilled workforce of some 83,100 people in over 40 countries.

Boeing Company: Boeing is the world's largest aerospace company and leading manufacturer of commercial jetliners, defense, space and security systems, and service provider of aftermarket support. As America's biggest manufacturing exporter, the company supports airlines and U.S. and allied government customers in more than 150 countries. Boeing employs more than 140,000 people across the United States and in more than 65 countries.

General Atomics Aeronautical Systems Inc: an affiliate of General Atomics, GA-ASI is a leading designer and manufacturer of proven, reliable unmanned aircraft systems, radars, and electro-optic and related mission systems, including the Predator, Reaper and Gray Eagle and the Lynx Multi-mode Radar.

Lockheed Martin: Lockheed Martin is a global security and aerospace company that employs approximately 100,000 people worldwide and is principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services.

Marand Precision Engineering: Marand is an Australian company that is a leading global supplier of precision engineered solutions to a range of industries including Aerospace, Defence, Rail, Automotive and Mining. Marand manufactures vertical tails for the Joint Strike Fighter (JSF) F-35A, under agreement with both BAE Systems and Lockheed Martin.

Northrop Grumman: Northrop Grumman is a leading global security company providing innovative systems, products and solutions in autonomous systems, cyber, C4ISR, strike, and logistics and modernization to customers worldwide.