

# QUARTERLY REPORT

## TO 30 JUNE 2011

### HIGHLIGHTS

- **First JSF Purchase Order received on schedule for production commencement early next Quarter with revenue to commence in Q1 2012.**
- **Successful completion of key “toll-gate” set by Northrop Grumman to commence component production of Group 1 parts for the Joint Strike Fighter (JSF).**
- **Key pre-condition fulfilled for Memorandum of Understanding with global helicopter supplier, Sikorsky, following the Australian Government’s award of an Air 9000 Phase 8 naval helicopter contract to Sikorsky.**
- **First production-ready Quickstep manufacturing plant commissioned in Germany.**
- **Quickstep wins “Manufacturer of the Year” award at 2011 Endeavour Awards.**
- **A\$17.3 million capital raising completed, comprising a convertible note facility together with a share placement to sophisticated and professional investors and an SPP to all shareholders.**
- **Research initiated by leading Australian stockbroker RBS Morgans Ltd with a price target of A\$0.58 in addition to updated research issued by State One Stockbroking with a price target of A\$0.55.**
- **Refurbishment of Bankstown facility in NSW running to schedule.**
- **Cash and investments in term deposits at the end of the June Quarter of \$14.096 million.**

### PREPARATIONS FOR F-35 JOINT STRIKE FIGHTER (JSF) MANUFACTURING

Quickstep Holdings Limited (ASX: QHL) achieved an important milestone in preparation for Joint Strike Fighter manufacturing during the June Quarter, with the Company successfully passing the “toll-gate” review set by global aerospace corporation Northrop Grumman Corporation on 29 June 2011.

In order to pass this toll-gate review, Quickstep successfully demonstrated production readiness for JSF manufacturing. This included completion of the Group 1 Statement of Work qualification requirements set by lead JSF contractor, Northrop Grumman, and JSF Original Equipment Manufacturer, Lockheed Martin, for the manufacture of an advanced composite production part using the Company’s manufacturing systems and business processes – a very important milestone.

The achievement of this milestone triggered Northrop Grumman’s first Purchase Order to Quickstep for Group 1 JSF parts.

Under the framework established in the Long Term Agreement (LTA) signed with Northrop Grumman in February 2011, Quickstep is set to commence delivering these first JSF parts (Group 1) in November 2011. The range of JSF components to be manufactured by Quickstep will be undertaken in groups – namely Group 1, Group 2 and Group 3.

The Company will supply a variety of JSF components, including a large number of composite doors and panels, with a total value over the life of the aircraft of up to \$700M.

As Quickstep proceeds with the planned supply of Group 2 and Group 3 parts, further Long Term Agreements and subsequent Purchase Orders are expected for each Group. Once all groups are in place, Purchase Orders are expected to be placed annually for each group during the Low Initial Rate of Production years followed by multi-year orders thereafter. The total period of production is still expected to be in excess of 20 years.

## **PROGRESS REPORT ON MOVE TO NEW SOUTH WALES MANUFACTURING FACILITY**

Following Quickstep's announcement regarding the establishment of a major new aerospace manufacturing facility at Bankstown Airport in south-west Sydney, as outlined in the March 2011 Quarterly Report, the Company has since made significant process in the refurbishment and fitting out of this facility and the overall relocation program is on schedule.

Phase One of the relocation is currently underway and will see the new facility equipped with a freezer, clean room, autoclave and other services required for the lay-up and curing of composite components in preparation for the facility to meet AS9100 standards.

Phase Two is due to commence in the December 2011 Quarter. This will involve the installation and commissioning of all other machinery, including the Precision Measurement Machine (PMM), Coordinated Measurement Machine, Non-Destructive Testing equipment and the paint shop.

This two-phase process minimises schedule risk and will enable the curing of composites to take place in the December 2011 Quarter, and the production of JSF parts in Bankstown during the 4<sup>th</sup> Quarter of 2012

Quickstep's move to Bankstown will include the transfer of the Australian R&D programs relating to the Company's proprietary composites manufacturing technology – the Quickstep Process – which will form a key component of Quickstep's future licensing and export capabilities.

The decision to move to Bankstown resulted from a re-zoning process at Quickstep's current facility in North Coogee, in Western Australia. Once established in Bankstown, Quickstep will have direct access to an existing workforce of technicians and engineers who are highly skilled in composite manufacture, as well as an extensive network of suppliers located in NSW and on the east coast of Australia.

The long-term lease and access to resources will provide Quickstep with the foundation required to deliver its large scale defence program and build upon this with further contracts as they are won.

### **SIKORSKY MOU**

As announced last Quarter, Quickstep has signed a Memorandum of Understanding (MOU) with global helicopter company, Sikorsky, which is designed to enable Quickstep to become a recognised supplier to Sikorsky's Global Supply Chain as well as a participant in Sikorsky's Australian industry participation program.

Progress under the MOU was contingent on Sikorsky being awarded the Air 9000 Phase 8 naval helicopter contract by the Australian Government.

During the June Quarter, the award of this contract to team Lockheed Martin/Sikorsky was confirmed by the Australian Government, fulfilling this key pre-condition of the MOU and enabling discussions between Quickstep and Sikorsky to proceed.

Under the terms of the MOU, the two companies will work together, firstly to enable Quickstep to become a recognised supplier to Sikorsky's global supply chain and, secondly, to conduct joint development work aimed at preparing Quickstep's patented technology – the Quickstep Process – to be used in Sikorsky's supply chain where the Quickstep Process demonstrates competitive advantage.

Updates on negotiations between Quickstep and Sikorsky will be provided in due course.

## **FIRST INDUSTRIALISED MANUFACTURING PLANT COMMISSIONED IN GERMANY**

The June Quarter saw Quickstep take further important steps towards commercialisation of its patented Quickstep Process for composites manufacturing, with the development of the new QS-E250 production plant.

The QS-E250 is Quickstep's first commercial production-ready plant, designed to provide customers with a standardised product that offers a streamlined automated solution. The new model will enable high-level craftsmanship, high reliability, ease of use and maintenance, as well as lower costs.

The Company is working with interested customers to secure orders for the QS-E250 plant and looks forward to announcing its first sales in the near future.

It is anticipated that sales of the Quickstep manufacturing technology will provide ongoing income streams for the Company generated by licence fees, manufacturing support and specialist composite material sales.

## **QUICKSTEP WINS ENDEAVOUR AWARD**

In recognition of Quickstep's success in entering the F35 Joint Strike Fighter global supply chain, the Company was awarded both the "Manufacturer of Year" and "Global Integration" Awards at the 2011 *Manufacturers' Monthly Endeavour Awards* in Melbourne in May.

The Global Integration Award recognises manufacturers who have successfully engaged in international supply chains.

Manufacturer of the Year was chosen from all nominees across all award categories, and represents a very positive endorsement of the Company's success to secure contracts within the international JSF program.

## **RESEARCH & DEVELOPMENT**

As part of its involvement as part of the Australian Government's "Climate Ready" program, Quickstep has successfully demonstrated production of the first class-A grade Resin Spray Transfer "RST" test panels. These created significant interest within the composite industry at the world's largest composite show, the JEC in Paris.

This technology shows considerable promise in its potential to provide the automotive industry with an affordable, fast and automated way of producing carbon fibre car panels which could reduce fuel consumption and CO<sub>2</sub> emissions from cars in the future. It is the most promising emerging technology available for the introduction of carbon fibre components in the automotive industry – a major focus of car manufacturers of today.

## **INTERNATIONAL SHOWCASE SITES AND DEVELOPMENT FACILITIES**

### **Quickstep GmbH (Germany)**

Quickstep GmbH successfully cured ballistic panels that show up to 15% better mechanical performance with equal weight compared to press curing. Further evaluations are underway from key clients

On the development of RST, Quickstep GmbH has been selected to receive R&D funds from the German Government to industrialise the RST solution for the automotive industry. A consortium has been formed to pursue this funding opportunity, including a major German automotive manufacturer, the world class Fraunhofer R&D institute, a company expert in advanced pre-forming and one of the largest producers of industrial manufacturing solutions to the automotive industry.

At the May 2011 SAMPE (Society of Advancement of Material and Process Engineering) technical conference, held in Long Beach, California, Quickstep GmbH presented breakthrough process development in the field of resin infusion of thick structures, an area of particular interest to the aerospace industry.

### **Quickstep Composites LLC (United States)**

Quickstep Composites LLC, in collaboration with Vector Composites, has completed further tasks with respect to the contract awarded by the U.S. Air Force in May 2010, aimed at qualifying the Quickstep Process for the manufacture of materials used in the F-35 Joint Strike Fighter. Screening panels cured using the Quickstep process have shown equivalent structural performance with expected improvement in cycle times compared with those cured using the baseline autoclave process. Manufacture of the full set of qualification panels is commencing now.

The Company is currently a collaborator on other proposals with commercial and academic entities for various demonstration and research efforts, with decisions expected on funding in the next several months.

## **CORPORATE**

### **Capital Raising**

On 27 April, Quickstep secured US\$15 million in new funding through a Convertible Note Facility with US financier, La Jolla Cove Investors, Inc., together with a A\$3.3 million share placement to investors including Washington H Soul Pattinson & Co, the Company's major shareholder.

Quickstep also provided current shareholders with the opportunity to participate in a Share Purchase Plan. Through the SPP, the Company received \$1.4 million in subscription funds through the issue of 4.39 million fully paid ordinary shares.

The funds raised by Quickstep during the Quarter will be used to establish the new manufacturing premises in Bankstown, New South Wales, which will enable the commencement of the Joint Strike Fighter manufacturing program.

These funds, together with expected and committed funding assistance from the Australian Federal and State Government, should provide Quickstep with access to more than A\$30 million of additional funding by the end of 2012, through an efficient mix of short term equity, medium term equity, loans and grants.

### **Broker Research**

Leading Australian stockbroker RBS Morgans published positive broker research coverage on Quickstep on 7 April, with a Buy recommendation and a 12-month share price target of A\$0.58 (at the time the report was issued, Quickstep's share price was A\$0.36).

The report states that Quickstep's international peers in composite manufacturing are trading at higher valuations and the RBS Morgans anticipates that the Company's valuation will follow these global players over the next 10 years. This valuation was confirmed more recently after receipt of the first JSF purchase order.

The report is available for download from Quickstep's website

### **Cash Position**

At the end of the Quarter, the consolidated group cash balance including short term investments was \$14,096 million. Drawings under the Convertible Note facility during the quarter were \$0.809 Million

## **OUTLOOK**

The September Quarter will be another period of significant activity for Quickstep on a number of fronts, with non-recurring set-up and destruct test articles commencing on Group 1 parts as part of preparations for JSF manufacturing and testing on deliverable parts expected to commence in early 2012.

The Company's relocation program to Bankstown will continue to ramp up as a significant proportion of Phase One of construction is expected to be finalised at the NSW facility before end of September.

Phase Two will commence in the September 2011 Quarter, with activities flowing over to 2012. Qualification of the new facility will commence from October 2011 and should conclude in the third Quarter of 2012. First production of JSF parts is due to commence in Bankstown in the 4<sup>th</sup> Quarter of 2012

Following the MOU signed with Sikorsky, Quickstep will be progressing negotiations to participate in Sikorsky's Global Supply Chain. The Company is also actively pursuing other major defence manufacturing programs to be delivered out of the Bankstown facility and is currently preparing responses to Request for Quotations and expecting to receive others in the future.

The Company's planned entry to the automotive industry will continue to progress during the next 12 months, with more complex shapes being produced and the industrial processes being refined. Further orders for the Quickstep plant or parts manufactured using the Quickstep Process should be received within the next 12 months.

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