

FIRST QUARTER FY19 UPDATE

26 October 2018: Quickstep Holdings Limited (ASX: QHL), Australia's leading independent carbon fibre composites manufacturer, today announced its quarterly update for the first quarter of FY19.

SEPTEMBER 2018 QUARTER SUMMARY (Unaudited)

- › **Total sales \$17.6 million, up 42% on Q1 FY18 and 6% on Q4 FY18**
- › **Positive EBIT and positive NPAT for Q1 FY19**
- › **First F-15 part delivered to Boeing Defense**
- › **Funding secured for Chemring flare housing project**
- › **Five – year C-130J wing flap contract extension**
- › **Introduction of Employee Exempt Share Plan**

FINANCIAL UPDATE

Quickstep delivered strong sales growth in Q1 with sales revenue of \$17.6 million, up 42% compared to \$12.4 million in Q1 FY18. This represented 6% growth on \$16.6 million in Q4 FY18 and all components were supplied on time and in line with program demand during the quarter. Quickstep remains on track to deliver higher Joint Strike Fighter (JSF) volumes over the next two years, with JSF revenue expected to increase more than 40% in FY19.

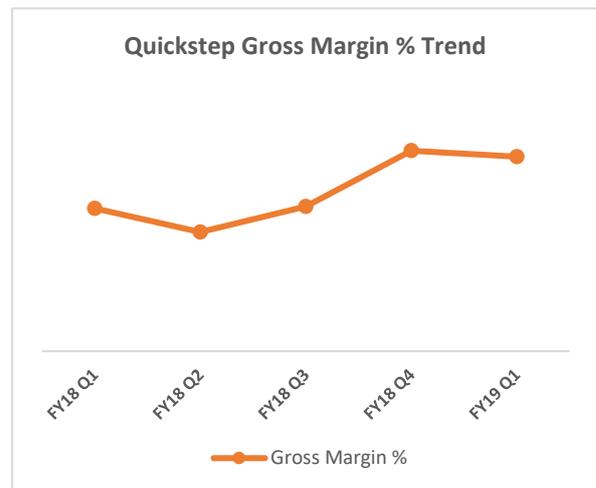
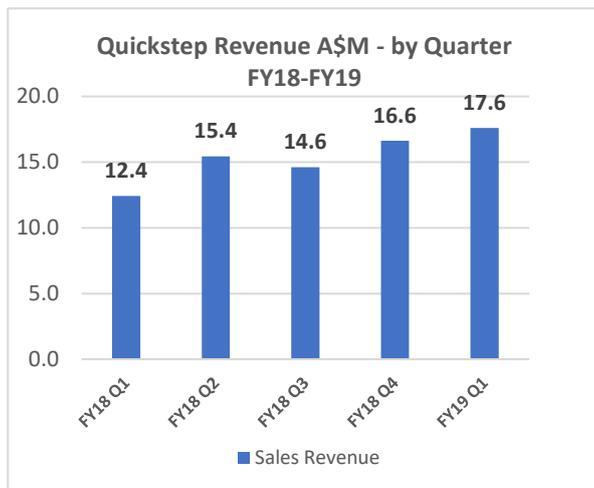
The business achieved positive NPAT in Q1 FY19 and expects to deliver positive EBIT for the full year FY19.

While EBITDA for Q1 was \$1.2 million, operating cashflow of \$(2.0) million reflected delayed customer payments received in October 2018. Working capital temporarily rose by \$5.6 million as a consequence of the delayed receipts as well as increased sales. The increase in working capital was partially offset by an increase in net deferred income of \$1.9 million.

At 30 September 2018, the group held \$2.7 million in cash (30 June 2018: \$2.9 million) and \$0.8 million in restricted term deposits (30 June 2018: \$0.8 million). Total outstanding debt, including capitalised interest, was \$16.5 million at 30 September 2018. This was an increase of \$2.9 million from 30 June 2018 to fund capital spend on the Chemring project and the delayed customer receipts.

Improvement in gross margin is expected during FY19 as JSF volumes continue to increase and from the ongoing lean manufacturing program. Q1 gross margin was impacted by supply chain stress as the JSF program ramps towards full rate production. A comprehensive supply chain management strategy is in place to address supply chain risks.

SALES REVENUE AND GROSS MARGIN TREND



Operational Highlights:

Lean and Continuous Improvement: initiatives continue to be rolled out across all functions at the Bankstown and Geelong sites to improve efficiency, reduce cost and improve margins.

New customer : The first F-15 part was manufactured and delivered to Boeing in the first quarter.

Qure / QPS:

- A Qure cell has been upgraded to aerospace specifications and is now fully operational at Geelong.
- Initial process testing of upgraded Qure to aerospace specifications is providing very promising results compared to autoclave performance, including significant reduction in process time and pressure, and equivalent material / part performance.

Employee Share Ownership: Quickstep recently announced an Employee Exempt Share Plan to recognise the contribution that its employees make to the growing success of the business.

Business Development Highlights:

- **Boeing Defense:** Quickstep continued development work for two Boeing Defense contracts for F-15 and F-18 combat aircraft components. These contracts add a new tier 1 customer, as well as new aircraft platforms and part families to Quickstep's portfolio. Quickstep has Approved Supplier status with Boeing, which opens up significant future business opportunities across the Boeing Company.
- **Chemring:** In July 2018, Quickstep was awarded a new defence project to establish production for F-35 countermeasure flare housings. It will be funded via Chemring Australia from the F-35 Lightning II Joint Program Office, and additionally a NACC-ISP grant of \$1 million will complement investment being made by Quickstep.

The company will apply advanced tooling and process engineering skills to establish new world-class advanced manufacturing capabilities at Bankstown. This extends Quickstep's capability to support the F-35 Program and other defence and aerospace projects. The housings will be supplied to Chemring Australia.

- › **General Atomics:** Quickstep is partnering with General Atomics in the 'Team Reaper' tender for Remotely Piloted Aircraft (RPA) systems. This partnership is progressing well and may lead to additional project opportunities with General Atomics.
- › **Lockheed Martin:** In August 2018 Quickstep signed a Memorandum of Understanding (MoU) with Lockheed Martin associated with the supply of C-130J and LM-100J wing flaps for an additional five-years from 2020 to 2024. Quickstep has an existing contract with Lockheed Martin to provide wing flaps for the C-130J/LM-100J aircraft through to end-2019, and this contract extension will continue the successful supply chain relationship.

These activities 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 anticipates that the business will continue to improve in FY19 as JSF deliveries ramp up towards peak production volumes over the next two years. The group's revenue is expected to grow by more than 20% in FY19 and gross margins will increase as the group benefits from economies of scale and increasing efficiencies. The group expects to deliver positive EBIT for FY19 as well as positive operating cash flow over the full year.

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 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 automotive industries.

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 220 people in Australia and internationally. More information about Quickstep is available at www.quickstep.com.au

Appendix 4C

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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")

30 SEPTEMBER 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	15,559	15,559
1.2 Payments for		
(a) research and development	(151)	(151)
(b) product manufacturing and operating costs	(10,924)	(10,924)
(c) advertising and marketing	(39)	(39)
(d) leased assets	(19)	(19)
(e) staff costs	(5,589)	(5,589)
(f) administration and corporate costs	(770)	(770)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(69)	(69)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from operating activities	(2,002)	(2,002)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(952)	(952)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 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 (provide details if material)	-	-
2.6 Net cash used in investing activities	(952)	(952)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
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	-	-
3.5 Proceeds from borrowings	3,250	3,250
3.6 Repayment of borrowings	(500)	(500)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from financing activities	2,750	2,750

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	2,862	2,862
4.2 Net cash from operating activities (item 1.9 above)	(2,002)	(2,002)
4.3 Net cash used in investing activities (item 2.6 above)	(952)	(952)
4.4 Net cash from financing activities (item 3.10 above)	2,750	2,750

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	2,658	2,658

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	2,658	2,862
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)	2,658	2,862

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
179
-

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	15,000	13,750
8.2 Credit standby arrangements	-	-
8.3 Other (capitalised interest)	3,333	2,989
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 \$10 million with additional capability to capitalise interest up to \$3.3 million. To date, \$2.0 million has been repaid with the facility balance now \$8.0 million with a capitalised interest cap of \$3.3 million (of which \$2.9 million is utilised). 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 \$7 million to fund working capital for JSF growth in FY19. At 30 September, \$5.75 million was drawn down. The current interest rate is 7.9% plus a 1.5% commitment fee on any undrawn funds.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(423)
9.2 Product manufacturing and operating costs	(10,266)
9.3 Advertising and marketing	(79)
9.4 Leased assets	(36)
9.5 Staff costs	(5,649)
9.6 Administration and corporate costs	(1,222)
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	(17,675)

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:
Company secretary

Date: 26 OCTOBER 2018

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.