

27 January 2016

Quarterly Report

To 31 December 2015

HIGHLIGHTS

FINANCIAL PERFORMANCE

Continuing strong sales

- Sales revenue of \$11.6 million for Q2 FY16
- Positive operating profit achieved in H1 FY16
- Firm order book in excess of \$120 million at 31 December 2015
- Short term debt of \$5 million repaid, post the Capital Raise
- Capital program to support growth commenced, \$0.8 million spend in Q2

AEROSPACE MANUFACTURING

Lockheed Martin C-130J production

- 8 ship-sets delivered in Q2 as planned and in line with first half target of 18 shipsets

Joint Strike Fighter (JSF) production

- 132 parts delivered in Q2, 287 parts for first half up 43% on H1 FY15
- Commenced supply of JSF vertical tails fairings components in December

TECHNOLOGY COMMERCIALISATION

New Waurin Ponds production facility being established

- Global R&D centre established at Deakin University's Waurin Ponds facility near Geelong
- Production facility fit-out underway; completion expected in Q3

Thales Hawkei vehicle program

- Australian Government confirms Thales' Hawkei supply contract
- Production of tools and engineering orders underway; production anticipated in Q4

Automotive commercialisation

- Niche-volume production program for global passenger vehicle manufacturer underway
- Production on track to begin production in Q3 FY16.

CORPORATE

Successful \$22 million capital raising

- Fully underwritten \$22 million capital raising (before costs) successfully completed

Board appointment

- James Douglas appointed as a non-executive Director of Quickstep on 17 December 2015



1.0 FINANCIAL PERFORMANCE

1.1 STRONG Q2 SALES

Sales for the second quarter of FY16 were \$11.6 million. Production of parts for the F-35 Lightning II Joint Strike Fighter (JSF) and C-130J Hercules continues to increase. Quickstep expects FY16 sales of \$48 million, which represents annual sales growth of 20% compared to FY15.

1.2 FIRM ORDER BOOK

At 31 December 2015, Quickstep's order book was valued in excess of \$120 million. This includes committed orders from Lockheed Martin for C-130J wing flaps and from Northrop Grumman and BAE Systems for JSF Program components. Manufacturing under these orders will extend through to FY19.

1.3 PROFITABILITY

Quickstep achieved an unaudited positive operating profit in H1 FY16; following on from a profitable second half of FY15. Operating profit in the first half of was generated by Aerospace Manufacturing; offset by some one-off costs and the ramp-up of R&D investment to support future growth, with \$1.2 million expended in the period.

2.0 AEROSPACE MANUFACTURING

2.1 STEADY LOCKHEED MARTIN C-130J PRODUCTION

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.

During the quarter, eight ship-sets were completed, making 18 for the half which is consistent to plan. C-130J orders extend through to 2019 in line with Lockheed Martin's recently announced multi-year contract with the U.S Department of Defense.

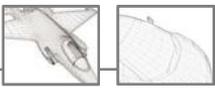
2.2 JSF PRODUCTION GROWTH CONTINUES

Quickstep is the sole supplier globally to Northrop Grumman for 21 JSF parts including doors, panels, lower skins and other composite parts. In Q2 FY16 Quickstep completed 132 parts compared to 155 parts in Q1 FY16 and 464 parts in total for FY15. Production is expected to increase three-fold over the next three years.

Qualification of vertical tail fairings components was completed in Q1, enabling commencement of production, and the first vertical tail fairings were delivered in December 2015. Four vertical tail fairings were delivered in Q2. The fairings are one of three fundamental components, which will be manufactured by Quickstep for JSF vertical tails. Qualification of vertical tail skins and spars continues and, subject to client approval, initial deliveries are expected to commence in Q4 FY16.

Under the agreement with BAE's supplier Marand Precision Engineering, Quickstep will supply 700 sets of composite parts including skins, spars and fairings over the next 14 years.

The company continues to progress discussions with current customers and targeted aerospace original equipment manufacturers (OEMs) regarding new contracts and mandates.



2.3 PREMIER'S NSW MANUFACTURING AWARD

Quickstep received the Premier's NSW Manufacturing Award for 2015, presented for outstanding international success by a manufacturer, in October 2015.

3.0 TECHNOLOGY COMMERCIALISATION

3.1 WAURN PONDS AUTOMOTIVE PRODUCTION FACILITY AND R&D CENTRE

During Q1 Quickstep established its Global R&D centre at Deakin University's Waurnd Ponds campus near the Geelong automotive hub. The centre will manage ongoing development of all Quickstep technologies and intellectual property, supporting the company's aerospace and automotive facilities in Australia and Germany. Quickstep's relocation of R&D from Germany to Waurnd Ponds was supported by the State Government of Victoria's investment promotion arm Invest Victoria. Quickstep maintains a long-standing strategic relationship with Deakin University through a strategic R&D and education agreement.

Fitout of the Automotive division's site for production at Waurnd Ponds is expected to be completed during Q3, when it will become the production facility for Quickstep's contract to produce components for a global passenger vehicle manufacturer.

3.2 THALES HAWKEI UPDATE

Quickstep is the exclusive supplier of the bonnet, side skirts and mud guards composite parts for Thales Australia's Hawkei vehicles, and work has begun on Quickstep's first orders for tooling and design and development. This follows the Australian government's decision to award Thales Australia a \$1.3 billion supply contract to build 1,100 military vehicles and 1,000 trailers in October 2015. Production of composite parts using Quickstep's innovative Qure and resin spray transfer (RST) technologies is expected to commence in Q4.

3.3 AUTOMOTIVE COMMERCIALISATION

During Q1 a leading global car manufacturer awarded Quickstep its first automotive passenger vehicle production order to manufacture up to 1,000 lightweight carbon fibre engine compartment parts. Development activities for this niche contract are well underway, and production is expected to begin in Q3.

Over the next 18 months, Quickstep will target other niche volume automotive orders of up to 10,000 parts per annum, including structural components and A-class body panel projects. In order to improve its technologies' commercial application for the automotive industry, Quickstep is investing in its existing Qure process to compete with higher volume manufacturing processes.

Funds from Quickstep's capital raising will help develop 'RapidQure', a new generation of Qure capable of low-cost mass production. It is envisaged that Rapid Qure will service medium- to high-volume projects in excess of 10,000 parts p.a., providing a disruptive competitor to the automotive industry's resin transfer moulding (RTM) and compression moulding processes.

3.5 ORPE CONTRACT

The sale of Quickstep's Qure to ORPE Technologiya, a leading European aerospace composites manufacturer, has entered its final phase.



4.0 CORPORATE

4.1 CAPITAL RAISING

During December 2015 Quickstep successfully completed a fully underwritten \$22 million (before costs) capital raising. This included a \$5 million placement to a strategic investor at \$0.15 per share, followed by a 1 for 3.3 non renounceable pro rata entitlement offer at 13c per share. The raising will fund capital expenditure associated with the forward C-130J and JSF sales pipeline, strengthen the company's balance sheet by reducing short term debt, set up Quickstep's new R&D facility at Waurin Ponds and enable Quickstep to continue to commercialise the application of the company's existing technologies.

4.2 CASH POSITION

At the end of the quarter, the consolidated group cash balance was \$15.4 million and the company held, in addition, \$0.7 million in restricted term deposits to be held to maturity. Following completion of the capital raising Quickstep has repaid all short-term debt including \$2 million provided by Australia's export credit agency, Efic, and the \$3 million loan from Newmarket Financing Management Pty Limited and associates.

4.3 CASHFLOW

Operating cashflow for Q2 FY16 was \$(2.4) million and \$(0.8) million for the half year. Q2 operating cashflow was impacted by sales and customer payment timing and the investment of circa \$1 million in inventory ahead of capital work shuts and ramp-up of the JSF vertical tail program. Quickstep commenced a capital expenditure program in Q2 to support future contracted growth, with a \$0.8m spend in Q2. It is expected that the company will return to positive cash flow in Q3 FY16. The net increase in cash for the quarter post loan repayments, capital raising costs and capital spend was \$12.7 million.

4.4 BOARD APPOINTMENT

The Board of Quickstep appointed James Douglas as a non-executive Director on 17 December 2015. Mr Douglas is Chairman of Australian composite automotive wheels manufacturer Carbon Revolution and a founder of investment firm Newmarket Capital, a strategic investor in the carbon fibre manufacturing sector. He has over 20 years' global investment banking experience and has held former roles as Global Head of Consumer Products at Merrill Lynch, Head of Consumer Products – Americas at UBS and Head of Global Banking Australia & New Zealand at Citi. He holds a B.Law and Science from the University of Melbourne.

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's near-term goals are:

1. Aerospace manufacturing

- Maintaining production of C-130J wing flaps to plan
- Completing the JSF Vertical Tail qualification program
- Increasing manufacturing capacity for JSF future growth
- Pursuing additional manufacturing contracts for the Bankstown operation



2. Technology commercialisation: Aerospace

- Securing manufacturing contracts with OEMs utilizing the Qure process

3. Technology commercialisation: Automotive

- Completing the fit-out of the manufacturing facility at Waurin Ponds
- Commercialising the Qure and RST technology into production
- Continuing development of the RapidQure technology
- Commencing production of the first automotive contract
- Preparing for first parts supply for the Thales Hawkei vehicle
- Pursuing additional 'niche' contracts with automotive OEMs

-ENDS-

For further information:

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Background on Quickstep Holdings Limited

Quickstep Holdings (ASX:QHL) is a manufacturer of advanced carbon fibre composites for the aerospace and automotive industries. The company operates from state-of-the-art aerospace manufacturing facilities at Bankstown Airport in Sydney, NSW; a production site for automotive in Waurin Ponds, Victoria; and an office in Munich, 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. To date, more than 160 JSF aircraft have been delivered to the US Department of Defense, and this number is expected to grow rapidly. 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 is currently partnering with some of the world's largest aerospace/defence organisations, including the US Department of Defense, Lockheed Martin, Northrop Grumman and Airbus.

Quickstep is also developing patented manufacturing technologies to produce high-volume A-grade finished composite components for automotives. The company has secured a contract to deliver components for Thales Australia's Hawkei protected mobility 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")

31 DECEMBER 2015

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter	Year to date (6 months)
	\$A'000	\$A'000
1.1 Receipts from customers	12,087	25,139
1.2 Payments for		
(a) staff costs	(4,401)	(8,232)
(b) advertising and marketing	(37)	(97)
(c) research and development	(666)	(1,197)
(d) leased assets	-	-
(e) other working capital	(9,203)	(16,231)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	26	27
1.5 Interest and other costs of finance paid	(201)	(378)
1.6 Income taxes paid	-	-
1.7 Other (government grants)	-	120
Net operating cash flows	(2,395)	(849)

+ See chapter 19 for defined terms.

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

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(2,395)	(849)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets*	(791)	(895)
(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)	-	-
Net investing cash flows	(791)	(895)
1.14 Total operating and investing cash flows	(3,186)	(1,744)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	20,947	20,947
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	(5,000)	(5,000)
1.19 Dividends paid	-	-
1.20 Other, Finance lease payments	(22)	(40)
Net financing cash flows	15,925	15,907
Net increase (decrease) in cash held	12,739	14,163
1.21 Cash at beginning of quarter/year to date	2,680	1,212
1.22 Exchange rate adjustments to item 1.20	21	65
1.23 Cash at end of quarter	15,440	15,440

* 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 31 December 2015, the total of Cash and investments in restricted term deposits is \$709k. (30 September 2015: \$709k).

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	390
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

<u>\$A'000</u>
- Executive and Non-Executive Directors' remuneration (Item 1.24) 390

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

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

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	11,775
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.
- Prior quarter included a multi-option facility of \$2,000k for working capital, which has been fully repaid in the December quarter.
- Prior quarter included a \$3,000k loan for an 18 month term from Newmarket subordinated to senior debt, which has also been fully paid in the December quarter.

+ See chapter 19 for defined terms.

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

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	15,440	2,680
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	15,440	2,680

As at 31 December 2015, the total of cash and investments in restricted term deposits is \$709k. (30 September 2015: \$709k).

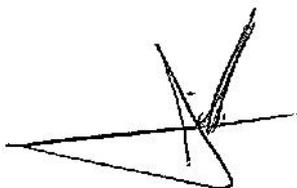
Acquisitions and disposals of business entities

	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		

+ 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 January 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.

+ See chapter 19 for defined terms.