

SECOND QUARTER FY20 UPDATE

28 January 2020: Quickstep Holdings Limited (ASX: QHL), Australia's leading independent carbon fibre composites manufacturer, today released its quarterly update for the second quarter of FY20.

DECEMBER SUMMARY (Unaudited)

- **Q2 sales \$18.9 million, up 16% on same period in FY19**
- **First half sales \$38.4 million, up 14% on the same period in FY19**
- **Q2 \$3.6 million operating cash flow (cash flow excluding AASB16 impact \$3.3 million)**
- **Upgraded FY20 revenue outlook**

FINANCIAL UPDATE

Quickstep has upgraded its revenue outlook and now expects to deliver in excess of 10% year on year sales growth in FY20 having secured incremental orders on existing contracts. This complements the increased scope of F-35 parts contracted in September which will have a modest revenue impact on FY20 but will benefit FY21. First half FY20 gross margin, on a like for like basis and excluding the impact of AASB 16, is expected to be comparable with the second half of FY19.

Operating cash flow of \$3.6 million for Q2 FY20 includes EBITDA in line with expectations and a significant improvement in the working capital position. Q2 operating cash flow on a like for like basis (excluding the impact of AASB 16 – Leases) was \$3.3 million. The shipment delays that were a drag on Q1 cash flow have been resolved and the related customer payments received. Inventories have decreased by \$3.4 million over Q2 and the deferred income reversal relating to the C-130J contract is now complete following transition to the new 5 year contract.

The Company's net debt position improved by \$2.4million to \$5.6million at 31 December 2019 as a consequence of improved operating cash flows. The group held \$2.6 million in cash (30 September 2019: \$1.8 million) and \$0.7 million in restricted term deposits (30 September 2019: \$0.8 million). Total outstanding debt, including capitalised interest, was \$8.9 million at 31 December 2019, a decrease of \$1.7 million since 30 September 2019.

The introduction of AASB16 – Leases from 1 July 2019 has had a material impact on key financial metrics including operating cash flow and EBITDA. To assist with comparisons against prior periods we have prepared a table below illustrating the reported financials included in this release as well as pro forma financials excluding the impact of AASB16 – Leases.

AUD millions	H1 FY19	H2 FY19	H1 FY20 Excluding AASB16	H1 FY20 As reported
Sales	33.8	39.4	38.4	38.4
Operating Cash Flow	0.9	(0.5)	(1.9)	(1.6)

The implementation of AASB16 – Leases has had a positive impact on EBITDA and operating cash flow as the costs of operating leases (previously recognised as part of EBITDA expensed over the term of the lease and as operating cash outflow) will now be excluded from EBITDA as lease costs will be recognised separately in depreciation (the right of use assets) while interest will be disclosed as part of financing costs.

BUSINESS DEVELOPMENT HIGHLIGHTS

Bid and proposal activity is at unprecedented levels but decisions on award of work are often taking longer than anticipated. Growth in existing orders into FY21, over and above base demand, have been secured on the back of continued strong performance on quality, delivery and cost competitiveness and reflect Quickstep’s reputation as a highly dependable supplier in a stretched supply chain.

Good progress has been made toward finalising our bid for a significant package of new work and a final decision from the customer is expected to be made before the end of FY20. Should we be successful in securing this package of work there would be incremental non-recurring costs in addition to those assumed in the current FY20 outlook.

Quickstep has a clear strategy to grow revenue and diversify its customer base in the Aerospace and Defence sector, while expanding the company’s capabilities to grow the business globally in the Aerospace, Defence and other advanced industry sectors. As part of this strategy Quickstep continues to make significant investment in business development and other resources in the US.

OPERATIONAL HIGHLIGHTS

F-35 production ramp-up continues according to plan and we are now at full-rate production on the base contracts.

Product qualification batches of the MJU-68 flare housing were delivered to Chemring Australia in Q2 with further deliveries forecast for Q3. Final product approvals are forecast during Q4 FY20.

C-130J demand has increased compared to base volumes which will benefit both FY20 and FY21. Transition to the new 5-year contract is complete. Boeing volumes, whilst disappointing to-date, are beginning to increase as detailed negotiations for new contracts continue with Boeing in the US.

AeroQure development has accelerated its progress, with the recent award of a record \$0.7 million co-funded grant from the Advanced Manufacturing Growth Centre (AMGC). Together with our partners on the project, Quickstep has commenced detailed work on process and material design, development and qualification under a \$3 million, two-year R&D program focussed on the global commercial aerospace market.

OUTLOOK

Quickstep has upgraded its revenue outlook and now expects to deliver year on year sales growth in FY20 above 10%, having secured incremental orders on existing contracts to complement the increased scope of F-35 parts contracted in September. FY21 revenue will increase a further 5-10% based on recent awards relating to existing programs, with additional growth potential from flare housings and other bids in the pipeline.

We have also narrowed the FY20 EBITDA guidance range from 8 to 10% to 8 to 9% of sales on a like for like basis (excluding the impact of AASB16). This slight narrowing reflects the impact of increased investment in engineering and R&D to support strong FY20 and FY21 revenue growth. The group expects to deliver positive NPAT and positive operating cash flow for FY20.

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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 245 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 DECEMBER 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	22,638	37,690
1.2 Payments for		
(a) research and development	(255)	(435)
(b) product manufacturing and operating costs	(11,087)	(23,525)
(c) advertising and marketing	(39)	(88)
(d) leased assets	(27)	(43)
(e) staff costs	(6,358)	(13,011)
(f) administration and corporate costs	(959)	(1,866)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	18	18
1.5 Interest and other costs of finance paid	(286)	(304)
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	3,645	(1,564)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1,072)	(3,758)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 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 refund of term deposit	92	92
2.4 Dividends received (see note 3)	-	-
2.5 Other customer funding for capital project	-	374
2.6 Net cash used in investing activities	(980)	(3,292)

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	1,200	3,200
3.6 Repayment of borrowings	(2,679)	(2,679)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (principal portion of lease payments)	(360)	(360)
3.10 Net cash from financing activities	(1,839)	161

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	1,813	7,334
4.2 Net cash from operating activities (item 1.9 above)	3,645	(1,564)
4.3 Net cash used in investing activities (item 2.6 above)	(980)	(3,292)
4.4 Net cash from financing activities (item 3.10 above)	(1,839)	161

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	2,639	2,639

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	2,639	1,813
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)	2,639	1,813

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
219
-

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	8,435	6,435
8.2 Credit standby arrangements	-	-
8.3 Other (capitalised interest)	3,333	2,178
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, \$5.9 million has been repaid with the facility balance now \$4.4m 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 interest rate is currently 5.47% plus a 2% commitment fee on undrawn funds.

An Export Contract Loan (ECL) was renewed at the end of June 2019 for \$4m (down from \$7m for the previous 12 months) to fund working capital for further JSF growth in FY20. The current interest rate is 6.56% plus a 1.5% commitment fee on any undrawn funds. \$2m is currently drawn under this facility.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(428)
9.2 Product manufacturing and operating costs	(12,167)
9.3 Advertising and marketing	(43)
9.4 Leased assets	(31)
9.5 Staff costs	(6,889)
9.6 Administration and corporate costs	(1,056)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(20,614)

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: 28 January 2020

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.