

## FOURTH QUARTER FY20 UPDATE

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

### **JUNE SUMMARY (Unaudited)**

- **Q4 sales \$24.6 million, up 7% on same period in FY19**
- **Full year sales \$82.3 million, up 12% on the prior year**
- **Q4 \$1.7 million operating cash flow**
- **Full year \$0.2 million operating cash flow**
- **Actions taken to further improve competitiveness**

### **UPDATE ON COVID-19**

Quickstep continues to focus on the health and safety of our people with all existing health protocols and social distancing measures remaining in place. We have a robust risk management process established to complement the ongoing State testing and control regimes in NSW and VIC.

Thankfully, COVID-19 has had minimal impact on Quickstep's FY20 financial performance. Our key customers are continuing production in line with plan and our production facilities at Bankstown and Geelong continue to meet all contracted delivery schedules and quality requirements. We have also seen a very significant reduction in COVID-related supply chain risk over the last 8 weeks.

### **FINANCIAL UPDATE**

As previously flagged, operating cash flow of \$1.7 million for Q4 FY20 reflects strong deliveries over the 3 months to June on the back of volume ramp up across all three key contracts. As a risk mitigation against supply chain disruption due to COVID-19 we are carrying a higher level of raw materials inventory than originally planned. The \$3.2 million deferred income reversal, relating to the C-130J contract that negatively impacted first half cash flow, is now complete following transition to the new 5 year contract at the end of 2019.

The Company's net bank debt decreased by \$0.2 million to \$6.4 million at 30 June 2020. The company held \$1.7 million in cash (31 March 2020: \$3.1 million) and \$0.7 million in restricted term deposits (31 March 2020: \$0.7 million). Total outstanding bank debt, including capitalised interest, was \$8.8 million at 30 June 2020, a decrease of \$1.6 million since 31 March 2020.

We are faced with an uncertain and increasingly competitive aerospace and defence market in the wake of COVID-19. This has been particularly acute for suppliers heavily exposed to commercial aerospace which includes many of our competitors who operate in both the defence and commercial aerospace sectors. In response, Quickstep has moved quickly to enhance competitiveness and will continue to do so over coming months through further process improvements, technology deployment and several key efficiency initiatives. The Company has implemented headcount reductions which will deliver annual savings in excess of \$1.5 million with non-recurring costs of approximately \$0.5 million impacting FY20. The full benefit of these cost savings will be realised in FY21.

## **OPERATIONAL HIGHLIGHTS**

F-35 production is at full-rate on the base contracts and is being delivered to plan. First articles are being delivered progressively on the new 10 parts awarded by Northrop Grumman, with the remainder to be shipped in the first half of FY21. Volume on the F-35 vertical tails contract with Marand has increased over the course of the year as we have grown market share.

Testing on the first batch of qualification parts for the MJU-68 flare housing has been successfully completed and a second test batch is currently scheduled for delivery to Chemring Australia in early Q1 FY21. As previously noted the testing programme has been extended by the end-customer with final product approval now forecast for H1 FY21. Quickstep's innovative flare housing production cell was part-funded by the US Department of Defence and the Australian government, with the objective of establishing a reliable second source for this important long-term countermeasure program.

C-130J demand continues in line with expectations and we have commenced discussions with Lockheed Martin on new product initiatives. Additional orders were received from Boeing during the quarter, including the new and high-profile supply of urgent parts for the USMC AV-8B Harrier fleet. The volume and scale of bids for new work with Boeing continues to increase.

High-rate production continues for the Micro-X Nano lightweight x-ray machine, which is being used by the medical profession in the fight against COVID-19, and current contracted deliveries will continue through the first half of FY21. Initial production deliveries of the latest Lockelec train ramp also commenced during the quarter and will continue into FY21.

## **BUSINESS DEVELOPMENT UPDATE**

Whilst the full impact of the COVID-19 pandemic continues to unfold, the short-term risks to the aerospace and defence industry are becoming clearer. Along with most global defence suppliers Quickstep has weathered the crisis well to date, but the commercial sector has a negative short-term outlook. We are already seeing distressed supplier behaviour, aggressive pricing and more difficult trading conditions generally.

Announcements by the Prime Minister of Australia earlier this month regarding a further 35% increase in projected defence expenditure over the next 10 years (to \$270Bn) will present significant additional opportunities in the Australian defence aerospace segment. Last week's approval by the US Government for the sale of an additional 105 F-35s to Japan demonstrates the continued growth in this global program.

The opportunity referred to in our Q3 report has not materialised with the customer retaining that work in-house for business reasons but we continue to explore other opportunities with the same customer and our pipeline of new opportunities remains strong.

Over recent months Quickstep has been in detailed discussions with aerospace OEMs and Tier 1 suppliers in the US and Europe to explore the application of AeroQure as a manufacturing technology. We expect to

provide detailed updates on this in the near future. Quickstep is progressing the previously announced collaborative program with AMSL, an Urban Air Mobility start-up based in Sydney. We expect the first prototype will fly, with complex airframe components produced using AeroQure, during the course of this calendar year.

## **OUTLOOK**

Quickstep's FY21 outlook is strong, with customer revenues expected to increase by between 5 and 10%, excluding any new major contract wins. Despite a material increase in R&D spend, EBITDA is expected to improve as recent cost actions deliver benefit from July with further efficiency initiatives already underway. Quickstep expects commercial aerospace production volumes to stabilise in the next 12 months and progressively recover through FY23. R&D spend will focus on exploiting AeroQure in the commercial aerospace market. Whilst volumes in this market are currently down, the focus on the cost reduction AeroQure can offer represents a significant tail wind to our marketing efforts.

We anticipate substantive opportunities emerging in the post COVID era in the aerospace and defence sector. This will be a key feature of our strategic planning process.

This announcement was approved by the Board of Quickstep Holdings Limited.

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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](http://www.quickstep.com.au)

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**
**Quickstep Holdings Limited**
**ABN**
**55 096 268 156**
**Quarter ended ("current quarter")**
**30 June 2020**

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	24,463	79,259
1.2 Payments for		
(a) research and development	(157)	(821)
(b) product manufacturing and operating costs	(14,677)	(48,253)
(c) advertising and marketing	(11)	(122)
(d) leased assets	(35)	(111)
(e) staff costs	(6,936)	(25,697)
(f) administration and corporate costs	(939)	(3,747)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	18
1.5 Interest and other costs of finance paid	-	(304)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>1,708</b>	<b>222</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,234)	(6,033)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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)	-	466
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(1,234)</b>	<b>(5,567)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	3,200	9,400
3.6	Repayment of borrowings	(4,725)	(8,904)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (principal portion of lease payments)	(310)	(900)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(1,835)</b>	<b>(404)</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	3,051	7,334
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,708	222
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,234)	(5,567)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,835)	(404)
4.5	Effect of movement in exchange rates on cash held	-	105
4.6	<b>Cash and cash equivalents at end of period</b>	<b>1,690</b>	<b>1,690</b>

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	1,690	3,051
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,690</b>	<b>3,051</b>

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1 (Executive and Non Executive Directors Remuneration)	230
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

<b>7.</b>	<b>Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities	8,957	6,657
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	3,333	2,165
7.4	<b>Total financing facilities</b>	12,290	8,822
7.5	<b>Unused financing facilities available at quarter end</b>		2,300
7.6	<p>The Group has two loan facilities: -</p> <p>A long term facility that was originally \$10m with additional capability to capitalise interest up to \$3.3m. To date, \$7.1 million has been repaid with the facility balance now \$2.9m with a capitalised interest cap of \$3.3m. The loan is secured with EFA (Export Finance Australia) as guarantor and the ANZ Bank as financier. Interest comprises a variable base rate, a fixed margin and guarantee. The interest rate is currently 4.69% plus a 2% commitment fee on undrawn funds.</p> <p>The Export Contract Loan (ECL) facility with \$6m limit. The current interest rate is 6.17% plus a 1.5% commitment fee on any undrawn funds. \$3.7m is currently drawn under this facility.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	1,708
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,690
8.3	Unused finance facilities available at quarter end (item 7.5)	2,300
8.4	Total available funding (item 8.2 + item 8.3)	3,990
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A – positive cash flow
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as “N/A”. Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A		
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A		
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: N/A		
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>		

## 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.

Date: 16 JULY 2020

Authorised by: The Board of Quickstep Holdings Limited

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.