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ASX Release: 26 October 2020

Quarterly Activity Report and Appendix 4C

Quickstep Holdings Limited (ASX:QHL) attaches its Quarterly Activity Report and Appendix 4C (Quarterly Cash Flow Report) for the quarter ended 30 September 2020.

The Quarterly Activity Report and Appendix 4C (Quarterly Cash Flow Report) have been authorised for release by the Board.

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FIRST QUARTER FY21 UPDATE

26 October 2020: **Quickstep Holdings Limited** (ASX: QHL) (Quickstep or Company), Australia's leading independent carbon fibre composites manufacturer, today released its quarterly update for the first quarter of FY21.

SEPTEMBER SUMMARY (Unaudited)

- **Q1 sales $22.6 million, up 16% on same period in FY20**
- **Q1 $1.4 million operating cash flow**

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 continues to have minimal impact on Quickstep's 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.

FINANCIAL UPDATE

Operating cash flow for Q1 FY21 was $1.4 million after funding the $0.5million headcount reduction provided for in the June 2020 results. A reduction in inventory, built up to mitigate COVID-19 supply chain risk, was a key driver of this result.

The Company's net bank debt decreased by $0.8 million over Q1 FY21 to $5.6 million. The Company held $2.5 million in cash (30 June 2020: $1.7 million) and $0.7 million in restricted term deposits (30 June 2020: $0.7 million). Total outstanding bank debt, including capitalised interest, was $8.8 million at 30 September 2020, unchanged since 30 June 2020.

Facing continued market uncertainty in the midst of COVID-19, Quickstep remains focussed on enhancing competitiveness through a detailed plan of process improvements, technology deployment and efficiency initiatives to continually improve productivity and reduce waste. The company has increased resources and investment in this area to ensure we are well positioned to react to market opportunities.

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OPERATIONAL HIGHLIGHTS

F-35 production continues at full-rate on the base contracts and is being delivered to plan. First article deliveries are progressing very well on the new 10 parts awarded by Northrop Grumman, with the remainder to be shipped by the end of 2020. Volume on the F-35 vertical tails contract with Marand has increased over the past 12 months as we have grown market share.

Testing on the second and final batch of qualification parts for the MJU-68 flare housing has been successfully completed. We now expect formal product approval by the US Department of Defense before the end of the year and have entered detailed discussions with our customer to address their production requirements. 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 discussions with Lockheed Martin on new product initiatives are ongoing.

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 FY21. Initial production deliveries of the latest Lockelec train ramp will continue through FY21.

BUSINESS DEVELOPMENT UPDATE

We have seen a marked increase in customer enquiries and requests for quotation (RFQ) from across our customer community. This follows a relatively quiet 6-month period as businesses addressed COVID-19 priorities. 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. Recent announcements concerning further increases to the Australian defence budget provide significant potential opportunities for new business across unmanned aircraft, helicopters and missile systems.

The AeroQure development program continues to perform ahead of plan across the Spirit, AMSL and European OEM work streams. There are a number of applications for this technology, beyond aerospace applications, that are currently being explored.

OUTLOOK

Quickstep's FY21 outlook is strong, with customer revenues expected to increase by between 5 and 10%, excluding any new major contract wins. 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 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

Forward looking statements

This release contains forward-looking statements and information that are necessarily subject to risks, uncertainties and assumptions. Many factors could cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in this release including, amongst others, changes in general economic and business conditions, regulatory environment, exchange rates, results of advertising and sales activities, competition, and the availability of resources. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this release. Except as required by law, the Company assumes no obligation to update or correct the information in this release. To the maximum extent permitted by law, the Company and its subsidiaries and officers do not make any representation or warranty as to the likelihood of fulfilment of any forward-looking statements and disclaim responsibility and liability for any forward-looking statements or other information in this release.

Appendix 4C

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

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

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	22,751	22,751
1.2	Payments for		
	(a) research and development	(462)	(462)
	(b) product manufacturing and operating costs	(13,267)	(13,267)
	(c) advertising and marketing	-	-
	(d) leased assets	(371)	(371)
	(e) staff costs	(6,614)	(6,614)
	(f) administration and corporate costs	(564)	(564)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	(84)	(84)
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Government grants and tax incentives		
1.8	Other (provide details if material)		
1.9	**Net cash from / (used in) operating activities**	**1,389**	**1,389**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(587)	(587)
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		

+ See chapter 19 of the ASX Listing Rules for defined terms.

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 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 – Grants –Customer Funding	276	276
2.6	**Net cash from / (used in) investing activities**	**(311)**	**(311)**

3.	**Cash flows from financing activities**		
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	500	500
3.6	Repayment of borrowings	(500)	(500)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other –Principal portion of lease payments	(240)	(240)
3.10	**Net cash from / (used in) financing activities**	**(240)**	**(240)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	1,690	1,690
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,389	1,389
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(311)	(311)

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(240)	(240)
4.5	Effect of movement in exchange rates on cash held	(27)	(27)
4.6	**Cash and cash equivalents at end of period**	**2,501**	**2,501**

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	2,501	1,690
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)**	**2,501**	**1,690**

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	217
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

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

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	8,957	6,657
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	3,333	2,193
7.4	**Total financing facilities**	12,290	8,850

7.5	**Unused financing facilities available at quarter end**	2,300

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing 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, $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 was 4.69% plus a 2% commitment fee on undrawn funds.

The Export Contract Loan (ECL) facility with $6m limit. The current interest rate is 5.695% plus a 1.5% commitment fee on any undrawn funds. $3.7m is currently drawn under this facility.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (Item 1.9)	1,389
8.2	Cash and cash equivalents at quarter end (Item 4.6)	2.501
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)	4,801
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	N/A Positive Cash Flow

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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

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

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

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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: 26 October 2020

Authorised by the Board

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.

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