Quickstep releases FY21 results

- **Sales $85.1 million, up 3.4% on the prior year**
- **Underlying pre-tax profit $2.1million compared to $2.2 million in prior year**
- **$7.8 million operating cash flow compared to $0.2 million in prior year**
- **Net bank debt down $1.8 million since 30 June 2020 to $4.6million**

26 August 2021: **Quickstep Holdings Limited** (ASX: QHL) (Company or Quickstep), today announced FY21 underlying PBT of $2.1 million representing a $0.1million decrease on the prior comparative period (pcp). Sales revenue increased by 3.4% to $85.1 million versus pcp with growth attributable to the F-35 programme. EBITDA margin has been impacted by an unfavourable exchange rate environment compared to the pcp and a payroll tax concession ending. Statutory PBT loss of $1.2 million is a $2.9 million reduction on prior year after including one off items being $2.8 million flares facility impairment charge plus $0.5 million Quickstep Aerospace Services (QAS) acquisition costs, and absorbing $0.8million of losses from the QAS business acquired in February 2021.

AUD Millions	FY21	FY21 Excl QAS	FY20	YOY change
Revenue	**85.1**	**84.3**	**82.3**	**2.8**
Underlying EBITDA	7.5	8.3	8.8	-1.3
EBITDA Margin %	**8.8%**	**9.8%**	**10.7%**	
Statutory EBITDA	7	7.8	8.3	-1.3
EBITDA Margin %	**8.2%**	**9.3%**	**10.1%**	
Underlying PBT	**2.1**	**2.9**	**2.2**	**-0.1**
Statutory PBT	-1.2	-0.4	1.7	-2.9
Tax Benefit	0.9	0.9	2.2	-1.3
Underlying NPAT	3.0	3.8	4.4	-1.4
Statutory NPAT	**-0.3**	**0.5**	**3.9**	**-4.2**

Underlying items exclude $0.5m restructure costs in FY20.

Underlying items exclude $0.5m acquisition costs and $2.8m impairment in FY21.

FINANCIAL UPDATE

Sales growth of 3.4% ($2.8 million) versus the pcp is attributable to the F-35 program, including a growing share of F-35 Vertical Tails global production, and Quickstep Aerospace Services (QAS) revenue of $0.8 million since the business was purchased in February 2021. Appreciation of the AUD against the USD dampened the year on year revenue increase on a key customer contract with an average USD / AUD exchange rate of 67.2c in FY20 compared to 74.8c in FY21.

Underlying EBITDA margin has decreased to 8.8% in FY21 due to the unfavourable USD / AUD exchange rate movement noted above, payroll tax concessions ending in December 2019, a modest price decrease on a key contract in late 2019, and $0.8million loss from QAS post acquisition. These unfavourable variances were partially offset by cost out initiatives implemented in June 2020 resulting in a $0.9m year on year reduction in R&D and BD spend, $0.2 million drop in corporate costs plus $0.3 million increase in grant income.

Underlying PBT of $2.1 million is on a par with the $2.2 million underlying profit reported for the prior year. On a like for like basis however (excluding QAS) underlying FY21 PBT of $2.9 million is 32% improved on FY20 despite the reduction in underlying EBITDA. This strong like for like PBT growth has been achieved in large part due to net foreign exchange gains of $0.3 million in FY21 compared to net foreign exchange losses of $1.0 million in FY20 being the profit impact of hedging our net USD exposure. An incremental $0.9 million tax benefit has been booked in FY21 reflecting probable future taxable profits.

Cash from operating activities of $7.8 million for FY21 was a $7.6 million improvement on the pcp. The strong cash result has been achieved through much tighter inventory control plus better cash management and is after funding $0.5 million of restructure costs (provided for in FY20), and the $0.8 million QAS loss. Capital expenditure of $2.3 million ($2.0 million, net of grants) has been invested to provide new capability, increase capacity and improve operational efficiency. The Company's net bank debt has decreased by $1.8 million since 30 June 2020 to $4.6 million, despite investing $3.1m to purchase the QAS business, as a consequence of better working capital management and ongoing profitability.

As announced in March, we were unsuccessful with regards a proposal submission to supply MJU-68B flare housings in the FY21/FY22 period to Chemring Australia (CHA). Given the low probability of securing flare housings revenue in the foreseeable future the Company has taken a prudent decision and, as flagged in our July 2021 trading update, booked an impairment charge against the value of the flare housings facility of $2.8 million to reflect the expected recoverable amount. In the event a relevant supply contract is secured in the future, a full or partial reversal of the impairment charge could be booked to reflect the revised recoverable amount. This impairment charge is a significant contributor to the FY21 statutory $0.3 million loss after tax.

OPERATIONAL HIGHLIGHTS

In spite of ongoing supply chain issues and domestic COVID-19 restrictions, engineering, manufacturing and sustainment operations across all three of our sites have performed very well. International supplier performance, air and sea freight are expected to remain challenging throughout FY22 but we have a robust risk management process in place and managed supply chain performance successfully throughout FY21, whilst still reducing inventory substantially.

Integration and launch of the newly formed QAS business is progressing well with operational and financial performance ahead of plan over the last three months. QAS has demonstrated onshore repair capabilities that have not previously been available to Australian airlines from an independent Australian Maintenance, Repair & Overhaul (MRO) business. Current market conditions remain challenging with domestic and international border closures significantly impacting air traffic volumes. This operating environment has been a central feature of our planning since the acquisition completed. Based on current market intelligence a demand surge, as experienced in Q4 of FY21, is anticipated to return during the course of FY22.

Delivery performance across all production and sustainment programs continues to meet or exceed customer requirements. C-130J demand continues in line with expectations and discussions with Lockheed Martin on a further 5 year contract post 2024 have commenced. Production volumes for Boeing fighter aircraft programs remained stable during the course of FY21, with discussions ongoing regarding additional work.

Production of the additional ten F-35 centre fuselage components for Northrop Grumman has commenced and will progressively increase during the course of FY22. A recently announced additional $4.7 million contract related to F-35 vertical tails, resulting from our positive delivery and quality performance, has increased our market share on that program over the past 12 months.

The most recent production contract for the Micro-X Nano lightweight x-ray machine was successfully completed and we were delighted to be awarded a follow-on contract for an additional 200 units to be delivered during FY22. Production deliveries of the Lockelec train ramps will continue through FY22.

BUSINESS DEVELOPMENT UPDATE

The Company recently announced the launch of Quickstep Advanced Air Mobility (QAAM) and a $1 million investment in Sydney drone company Carbonix. QAAM is initially targeting manufacturing opportunities in the middle of market for sophisticated drone OEM and has several customer opportunities under evaluation. Engineering and manufacturing will be centred on our Geelong facility, including the use of Qure, and further announcements are anticipated in due course. AeroQure development programs continue to perform to plan across all OEM work streams.

A detailed response to the Commonwealth's Request for Information on the Guided Weapons and Explosive Ordnance Enterprise has been submitted. The Company is in detailed discussions with a number of OEM and local partners relating to future production of guided weapon airframes. It is anticipated that this program, over the medium to long term, could be equivalent in scale to the current F-35 program.

QAS has undertaken extensive business development activity since its launch in late February 2021, with notable successes on B787 repairs and a range of ad hoc work for domestic mainline carriers. Key customer pursuits are progressing well. The Company is planning an investor day, prior to the November AGM, where greater detail will be provided on the medium-term outlook for that business.

OUTLOOK

At current USD / AUD exchange rates the Company expects to deliver revenue growth, substantially improved reported PBT, and continued strong operating cash flows for FY22. An updated outlook will be provided at the AGM in November.

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 composite business in Australia, with facilities in Sydney, Geelong, Melbourne and Dallas. The group employs more than 280 people in Australia and internationally. More information about Quickstep is available at www.quickstep.com.au