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24 May 2023

VELOCITY COMPOSITES PLC
("Velocity or the "Company")

Trading Update & Notice of Results

Trading in line with expectations as US facility begins manufacturing kits

Velocity Composites plc (AIM: VEL), the leading supplier of composite material kits to aerospace and other high-performance manufacturers, provides the following trading update for the six months ended 30 April 2023 ("**H1 FY23**"). The Company expects to publish its H1 FY23 results on 11 July 2023.

The Board is pleased to confirm that trading has been in line with expectations for the six months ended 30 April 2023. Sales are expected to be £7.0 million, up 15% compared to H1 FY22. Demand is steadily returning to pre-pandemic levels, building on the momentum reported in recent results as the global aerospace industry recovers and OEM forecast production rates grow. The UK sales growth was stronger than initially expected, accelerating in the latter few months of the period.

Growth will increasingly come from Velocity's new advanced manufacturing facility in Tallassee, Alabama, which is now complete with AS9100 quality approvals granted (the "**US Facility**"). In April 2023, the US Facility manufactured the first production kits at the site to support the five-year Work Package Agreement announced in December 2022 with GKN Aerospace (the "Customer"). The agreement with the Customer is expected to be worth in excess of US\$100 million in revenue over five years, with the Customer confirming strong end-user demand for its parts into 2024.

Significant operational progress has been made in the US to qualify the new programmes being onboarded in the GKN Aerospace contract, although sales only started at the end of H1 FY23 with £0.1m of revenue recognised in the period. This was due to the rigorous nature of the First Article Inspection process. The ramp-up of US sales remains on track to achieve the Company's FY23 objectives, with all the new programmes expected to be at the contracted production levels by year-end.

There has been significant investment in developing the US Facility, and approximately £0.4m of short-term overheads, including travel, operational management, and engineering support have been incurred. As a result, reported EBITDA is expected to be a loss of £0.9m for H1 FY23 (H1 FY22: £0.2m loss), These costs should be recovered in H2 FY23 as the US Facility increases production towards the contracted full rates.

The challenging macroeconomic conditions in H1 FY23 has put pressure on margins. However, by the latter part of the reporting period, price increases had been successfully agreed with key customers, and this will provide a larger benefit for the next half year. With much of the Company's revenue secured through pass-through mechanisms on any raw material price increases, inflation risk impacts added value areas only, hence the need for the

additional price increases. Furthermore, Velocity's new Digital Manufacturing Cell increased automation and helped secure the longer-term global margin objectives.

The Group's cash position, as at 30 April 2023, was £1.2m and its net debt was £1.8m. The GKN Aerospace contract's working capital is supported by supply chain finance lines provided by the Customer, helping to provide a self-funding mechanism until the profit from the contract can then fund the work under the contract in the long-term.

Outlook

As well as delivering the GKN Aerospace contract, there has been a focus on using the US Facility to target the US composite materials market, which is significantly larger than the market in Europe. The US Facility has been constructed so it can double again in capacity.

Outside the US, there also remain significant opportunities for European growth through current UK customers and increased usage of our established European manufacturing capability.

The Company has already contracted UK and US business which, when in full production (at current OEM run rates), will significantly increase revenue from current levels. The commercial value of contracted business is currently estimated to be worth between £30m to £36m per annum at OEM planned production rates. On some programmes, these rates are still below pre-pandemic production levels and include a growing amount from military programmes, with additional growth forecasted as NATO countries increase investment in their defence capabilities. The current UK and US manufacturing facilities are being expanded to meet this rapid increase in order book and with the new US facility setup, can be doubled again in capacity, to meet further new business and contracted volumed growth, of up to £70m. The US facility build also demonstrates the Company's proven ability to then add further facilities in other locations, if or when required in the future. Independent market analysis shows the potential size for Velocity's services in Europe and US is significantly larger than current contracted business and facility capacities.

The Company has a healthy short-term pipeline of new business opportunities in Europe and North America. Longer-term, carbon fibre composite material usage is expected to grow significantly in civil aircraft and other transportation modes. The benefits of its relative lightweight will play an important role in reducing the use of fossil fuels through greater fuel efficiency in conventional jet engine technology. Wider adoption of composite material technologies will also continue, with lightweighting and composite strength being critical to all electrification, hydrogen fuel developments and urban vertical mobility transportation. Velocity's strategy is to be a key advanced manufacturing solutions provider to these important growth markets and already has some business in the development stages of these new initiatives.

As a result, there are high levels of global interest in Velocity's services and development of its own Velocity Resource Planning ("VRP") digitalised supply chain services, which form an important part of our IP. Velocity engineering staff, along with our VRP solution, help eliminate most material production wastage, speed up customer production cycles and increase inventory turns, and enable better production planning and ordering of expensive materials, which have long lead times from material manufacturers.

Andy Beaden, Chairman, Velocity, said: *"The recent start of manufacturing at our new facility in Alabama was a major milestone and demonstrated the significant progress we have made over the last 12 months. We have trebled the value of commercial business under contract compared to this time last year. The global aerospace industry continues to recover,*

and alongside our new US base, we anticipate significant revenue growth in the coming years, particularly in North America.

“Furthermore, the global focus on Net Zero brings the need for more and more industries to make greater use of composite material technologies. This creates more opportunities for the business and we are excited about the Company’s long-term prospects.”

Enquiries:

Velocity

+44 (0) 1282 577577

Andy Beaden, Chairman
Jon Bridges, Chief Executive Officer
Adam Holden, Chief Financial Officer

Cenkos (Nominated Adviser and Broker)

+44 (0)20 7397 8900

Katy Birkin
Ben Jeynes
George Lawson

SEC Newgate (Financial PR)

+44 (0)7540 106 366

Robin Tozer
George Esmond
Harry Handyside

velocitycomposites@secnewgate.co.uk