

VELOCITY COMPOSITES PLC

Interim Results Presentation

June 2019



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Highlights



Operational

- Wesco collaboration agreement announced leading to first operational site in the USA
- Growing pipeline of opportunities supporting site investment
- Developing partnerships

Financial

- Revenue growth (5.3%)
- Gross margin 20.9% at similar level to H2 18 (H1 FY18: 15.2%)
- Adjusted profit of £0.3m (H1 FY18: loss £0.5m)
- Cash remains strong with net cash £4.2m (Oct FY18: £4.1m)
- Cash includes £1.8m of EIS/VCT earmarked investment

Business Update



Sales Activity

- Focus on partnerships to overcome limitations of company size in market
- Pipeline of opportunities strengthening with partnership
- Focus on a fewer number of larger, key industry customers with scale
- Build strategic relationships with global Tier 1 customers

Long term strategic prospects

- **USA** – Wesco partnership in SE USA to be “showroom” and first production facility
- **Europe** – large potential program supporting new facility in mainland Europe
- **Asia** – difficult market to gain traction – natural phase 3 after Europe and USA

Recertification of Nadcap Special Process accreditation for both UK sites

EIS/VCT Spend

- Employed £5m EIS/VCT funds following detailed professional advice
- Major investment planned for new production/storage units in USA and Europe

Board Update

- Board consider position and process publicly agreed by Company and Founders at AGM (25 March 2019, RNS that day):
 - Former Chairman stood down; and
 - Resolutions authorising issuing or buy back of share capital all withdrawn; and
 - Board to lead independent search process using independent search firm for an independent Chairman; and
 - New Chairman to lead process to find new CEO, CFO and potentially an additional NED (Founder representative)
- Independent search firm appointed after short competitive process (6 May 2019)
- The Founders have stated that they disagree with the Board approach and instead have proposed an alternative approach to re-constituting the Board which includes the appointment of their two nominees to the Board
- While disappointed by this turn of events, the Board had no choice but to engage with the Founders and are currently in active discussions to attempt to resolve matters in the interests of all stakeholders to avoid a disorderly transition
- In light of those discussions, the independent search for a new Chairman has been temporarily put on hold

Financial Highlights

	H1 2019 £000	H1 2018 £000	Fy18 £000
Revenue	12,243	11,622	24,478
Cost of sales	(9,679)	(9,856)	(19,991)
Gross profit	2,564	1,766	4,487
Admin Costs	(2,571)	(2,694)	(5,322)
Exceptional admin expense	(377)	-	(252)
Other income	4	9	15
Operating loss	(380)	(919)	(1,072)
Finance expense	(50)	(68)	(135)
Loss before tax	(430)	(987)	(1,207)
Adjusted profit / (loss) *	338	(480)	(67)

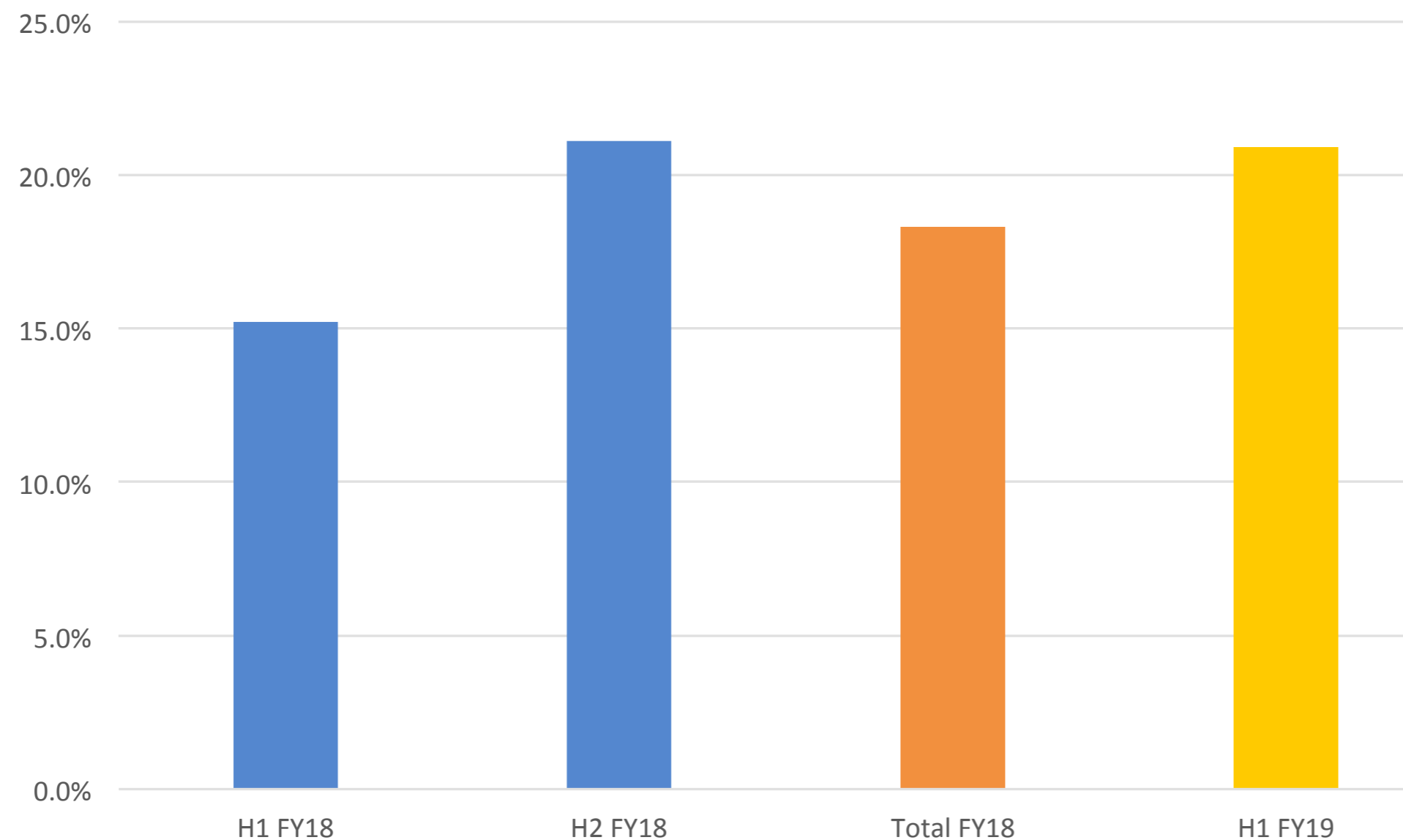
*Adjusted profit / (loss) is after adjusting for future growth expenditure relating to UK and overseas and Exceptional restructuring costs

- Revenue increased 5.3%
 - Safran Commercy/GKN with reduced demand from Kaman
- Significant GM% gains: 20.9% vs 15.2% in FY18. Driven by:
 - Cost price changes fully passed on
 - Currency alignment and improved reporting
- Gross profit increased 45% to £2.6m (H1 FY18: £1.8m)
- Admin costs fell slightly with savings from some management changes
- Exceptional items were primarily management restructuring costs and costs incurred in connection with the dispute with the Founding shareholders
- Adjusted profit of £0.3m (H1 FY18: loss £0.5m)

Business restored to a break even footing

Gross Profit Improvement

FY18 & FY19 Gross Margin



- Gross profit increase for H1 of 45% to £2.6m (FY18: £1.8m)
- Gross margin for H1 FY19 of 20.9% compared to 18.3% for FY18
- Similar gross margins in H2 FY18 to H1 FY19 due to cost management and continued focus on analysing gross margins
- FY18 H1 margin impacted due to unforeseen customer changes and onboarding of multiple programs. Action taken to ensure cost price changes are fully passed on and currency aligned in contract

Strong focus in business on gross margin management from contract to delivery.

Consolidated statement of financial position

As at 30 April 2019

	H1 2019 £000	H1 2018 £000	31 Oct 18 £000
Non-current assets			
- Intangible assets	350	355	362
- Property, plant and equipment	1,130	1,123	1,080
Current assets			
- Inventories	3,048	2,982	2,744
- Trade & other receivables	4,639	4,781	5,727
- Corporation tax	113	-	113
- Cash and cash equivalents	4,371	5,754	4,726
Current liabilities			
- Trade & other payables	4,386	5,266	5,197
- Grant income deferred	3	13	7
- Corporation tax	-	-	-
- Net obligations under finance leases	144	132	116

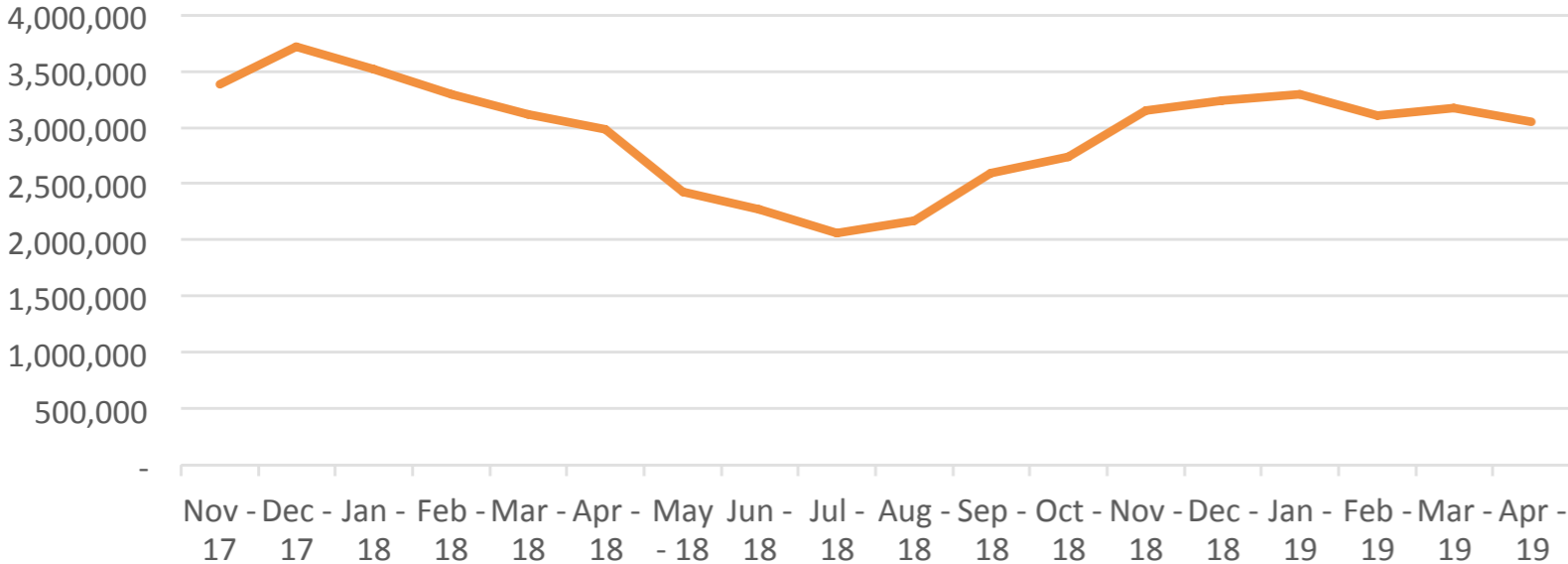
Consolidated statement of financial position (continued)

As at 30 April 2019

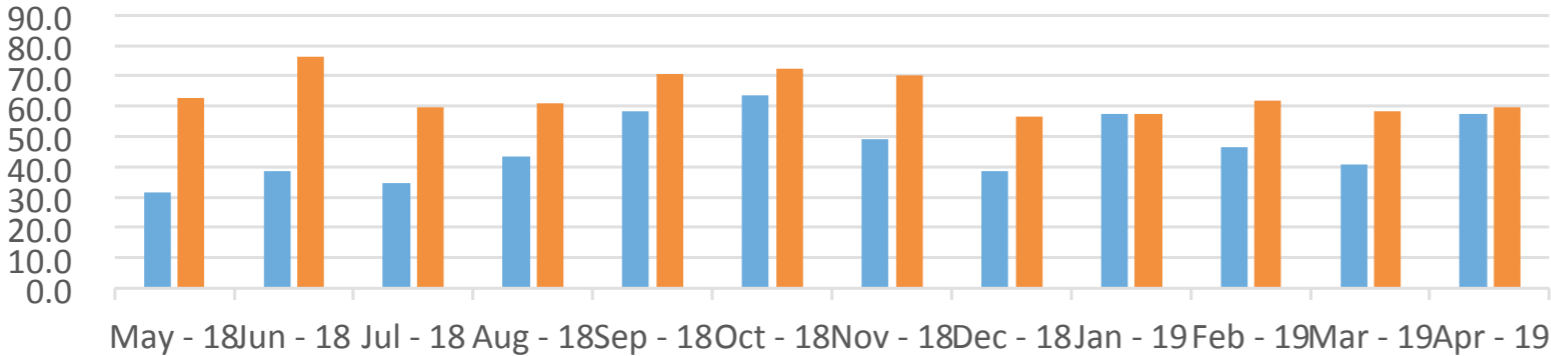
	H1 2019 £000	H1 2018 £000	31 Oct 18 £000
Non current liabilities			
- Deferred tax	-	-	-
- Net obligations under finance leases	244	225	171
Net assets	8,894	9,359	9,261
Equity attributable to equity holders			
- Share capital	90	89	89
- Share premium	9,791	9,727	9,727
- Share-based payments reserve	534	452	536
- Retained earnings	(1,521)	(909)	(1,091)
Total equity	8,894	9,359	9,261

Working Capital

Stock - Nov 17 to Apr 19



Debtor vs Creditor Days (12 month rolling)



	May - 18	Jun - 18	Jul - 18	Aug - 18	Sep - 18	Oct - 18	Nov - 18	Dec - 18	Jan - 19	Feb - 19	Mar - 19	Apr - 19
■ Creditor Days	31.8	38.5	34.8	43.3	58.2	63.6	48.9	38.7	57.6	46.4	40.8	57.5
■ Debtor Days	62.8	76.5	59.7	61.1	70.5	72.3	70.0	56.5	57.4	62.0	58.5	59.8

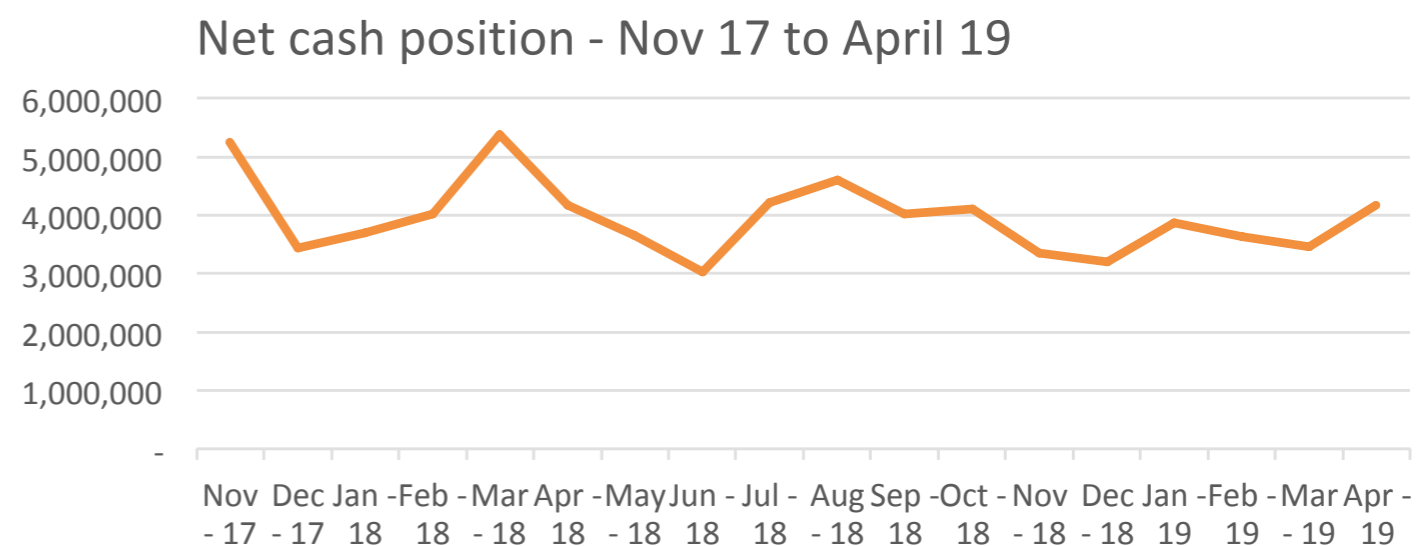
■ Creditor Days ■ Debtor Days

- Stock levels closely managed
- Designed to protect customer supply chain and rapid short term changes in demand
- Brexit preparations included lead to £0.3m increase in stock
- Target is 7 stock turns – actual 6.1 times (FY18 5.9 times)
- Net cash managed with weekly focus on Debtors
- Debtor days 60 days (FY18 60 days)
- Overdue debt down to £111k (2.1%) (FY18: £563k /15.0%)

Cash Flow

	H1 2019 £000	H1 2018 £000	31 Oct 18 £000
Operating loss	(380)	(919)	(1072)
Depreciation & Amortisation	219	196	413
Other Operating Cash flows	57	75	161
Decrease/(Increase) in receivables	1,088	428	424
Decrease/(Increase) in inventories	(304)	284	522
(Decrease)/Increase payables	(392)	147	98
Cash generated from operations	288	211	546
Taxation	-	34	(40)
Purchase property, plant and equipment	(59)	(102)	(220)
Development expenditure capitalised	(52)	(82)	(152)
Finance costs	(50)	(68)	(135)
Decrease in Invoice discounting (ID)	(418)	436	(528)
Repayment of Finance Lease capital	(64)	(89)	(159)
Net decrease) / increase in cash and cash equivalents	(355)	340	(688)
Cash and cash equivalents at end of period	4371	5754	4726
Net cash after deducting ID	4173	4174	4110

- Significant reduction in Operating Loss
- Inventories higher due to stock build for Brexit
- Debtors – improvement in cash collection and reduction in overdue debts
- Creditors – reduction from year end
- Property plant and equipment – largest Laser
- Reduction in use of ID facility to reduce interest costs with surplus cash available

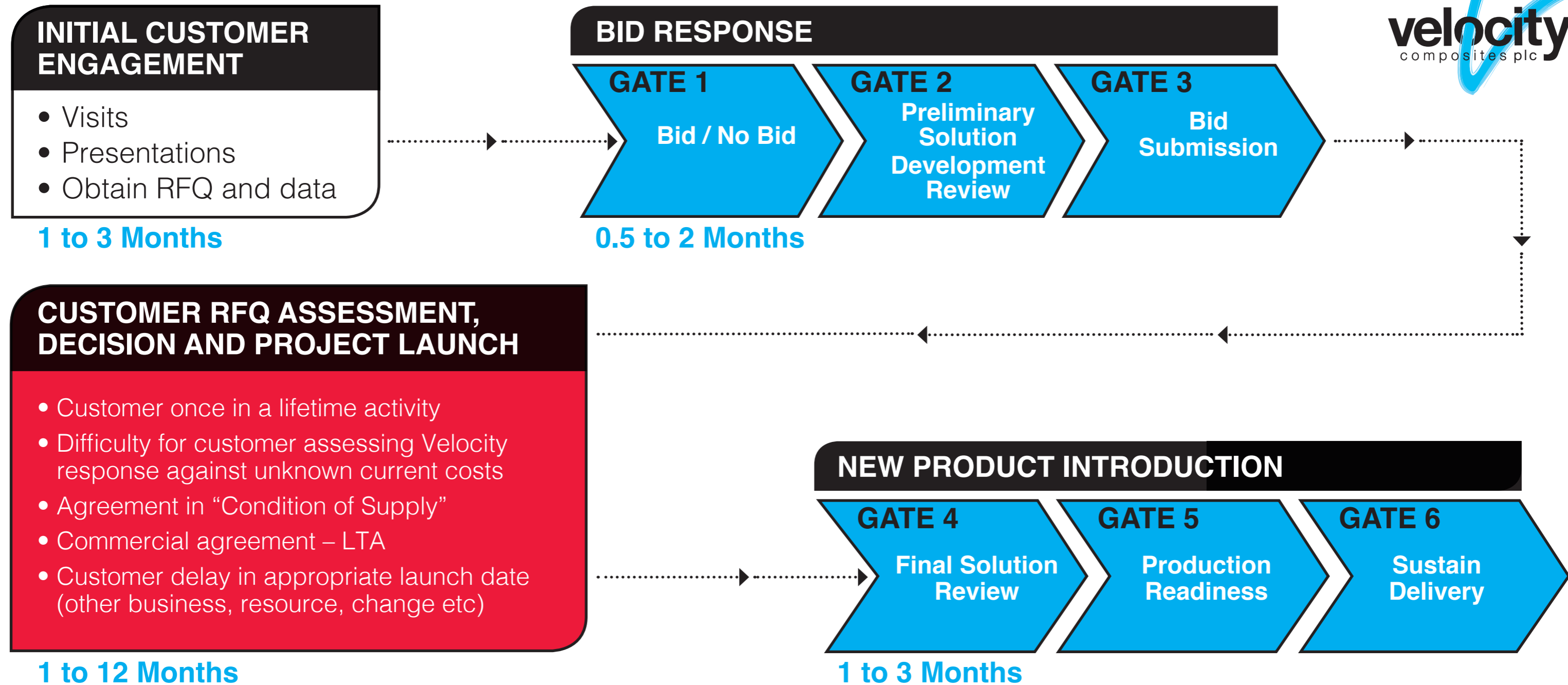


Business Development



- Customer Engagement Lifecycle
- Dependencies
- Investment in Growth update
- USA – Wesco

Customer Engagement Lifecycle*



*Typical 18-24 month lifecycle

Dependencies

- **Customers do what they say they are going to do** – “subject to customer demand fluctuations”
- **Velocity continues to exploit market opportunities and fill the new business hopper**
- **Velocity convert interest to RFQ's**
- **Customers are prompt in making decisions on RFQ responses;** Velocity convert pipeline into contracts
- **Market conditions remain unchanged** (Customer / Supplier / Regulatory)
- **Build long term investor and customer value**



Investment in Growth Update

	Europe	Asia	North America
Entry Strategy	<ul style="list-style-type: none"> • Bid on six key projects • Team in place but requires building • Support from UK initially 	<ul style="list-style-type: none"> • Bid on 1-2 key projects • Distribution model explored with partners • Local team in region 	<ul style="list-style-type: none"> • Targets identified • Distribution model investigated with partners
Investment	<ul style="list-style-type: none"> • Open R&D centre in Burnley in December 2019 	<ul style="list-style-type: none"> • Training initial Asia team • BD visits continue in region • Project office opened in Kuala Lumpur with 3 engineering staff 	<ul style="list-style-type: none"> • Monthly visits start of year • Partnership Agreement agreed with global supply chain partner
Progress	<ul style="list-style-type: none"> • Key contract wins • Pipeline of projects at various stages of Lifecycle • Opportunity with European supply chain partner • Meetings planning for Paris Air Show 17-23 June 	<ul style="list-style-type: none"> • Focus on 3/4 key customers • Local competition entrenched • Raw material supply issue 	<ul style="list-style-type: none"> • Advanced plans with Wesco to open a production unit in SE USA

Understand market

Identify target

Visit / Present / RFQ

Bid submission


USA – Wesco

- Wesco identified as strategic partner in early 2018 (complimentary service offering)
- Wesco are the world's leading independent distributor and provider of comprehensive supply chain management services to the global aerospace industry
- Partnership agreement signed in September 2018
- Programme started to visit potential customers and build market entry strategy
- 21 customers identified with a total spend of \$600m
- Six customers visited with a combined spend of \$150m
- Confidence achieved in the need for an in country facility to support business development (show room), which becomes the first manufacturing facility
- Three key customers in the SE USA lead to first facility in this region
- Announcement of partnership and formal launch in June 2019



Summary & Outlook

- Growing pipeline of business opportunities
- Potential to convert pipeline to new contract wins and production in 2020
- Improving business performance with growth maintained and margins significantly improved
- Cash flow returned to breakeven with £4.2m net cash and £5.0m discounting facility in place
- Underpins confidence in investment in new US venture and new UK R&D centre
- Significant win in creating the collaboration with Wesco, initially targeting the US market
- EIS/VCT position resolved with more than £5.0m of funds 'employed' on qualifying expenditure
- Resolve the constitution of the Board
- The Board is confident in achieving its expectations for the year



Improving growth prospects, better margins and cash flow, are robust foundations on which to invest in a number of new opportunities. Once the final Board matters are resolved the business will be able to move ahead focused firmly on the valuable opportunities that remain in our markets.



Appendices

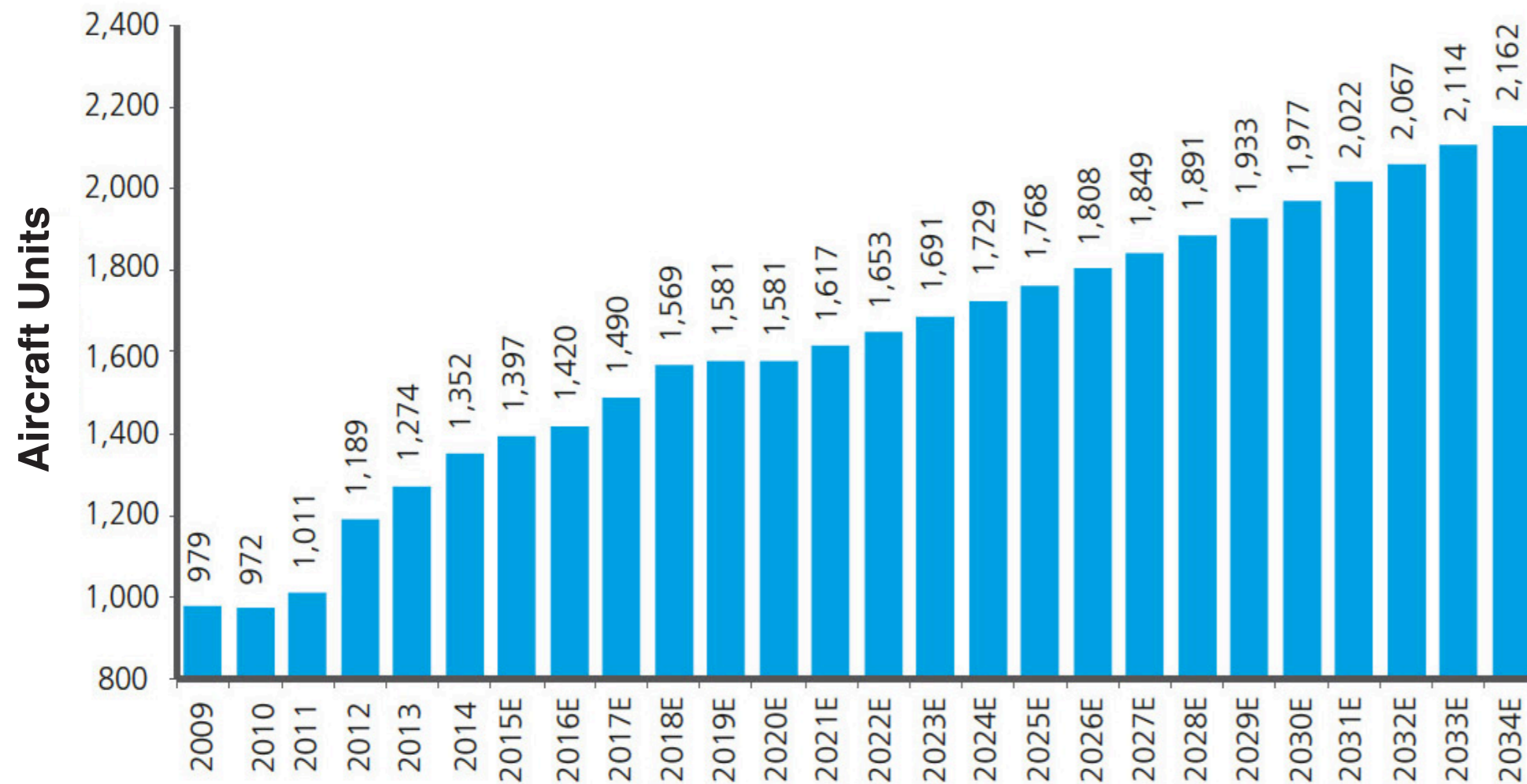


- **Mission:** To revolutionise aerospace and high value composites manufacturing by enabling our customers to reduce waste/costs whilst meeting increased global demand by creating a lean and scalable supply chain in a more-for-less era
- Velocity manufactures highly engineered and consumable kits for use in the production of carbon fibre composite parts for aircraft
- Carbon fibre has seen a step change increase in its use in aircraft and long term aircraft production rates have seen an unprecedented increase
- Velocity uses its industry knowledge and business processes to reduce the amount of raw material and process time our customers need to build aircraft
- Velocity helps manufacturers to reduce costs and increase production rates to help them to meet the challenging targets set by the global aircraft manufacturers to reduce the backlog



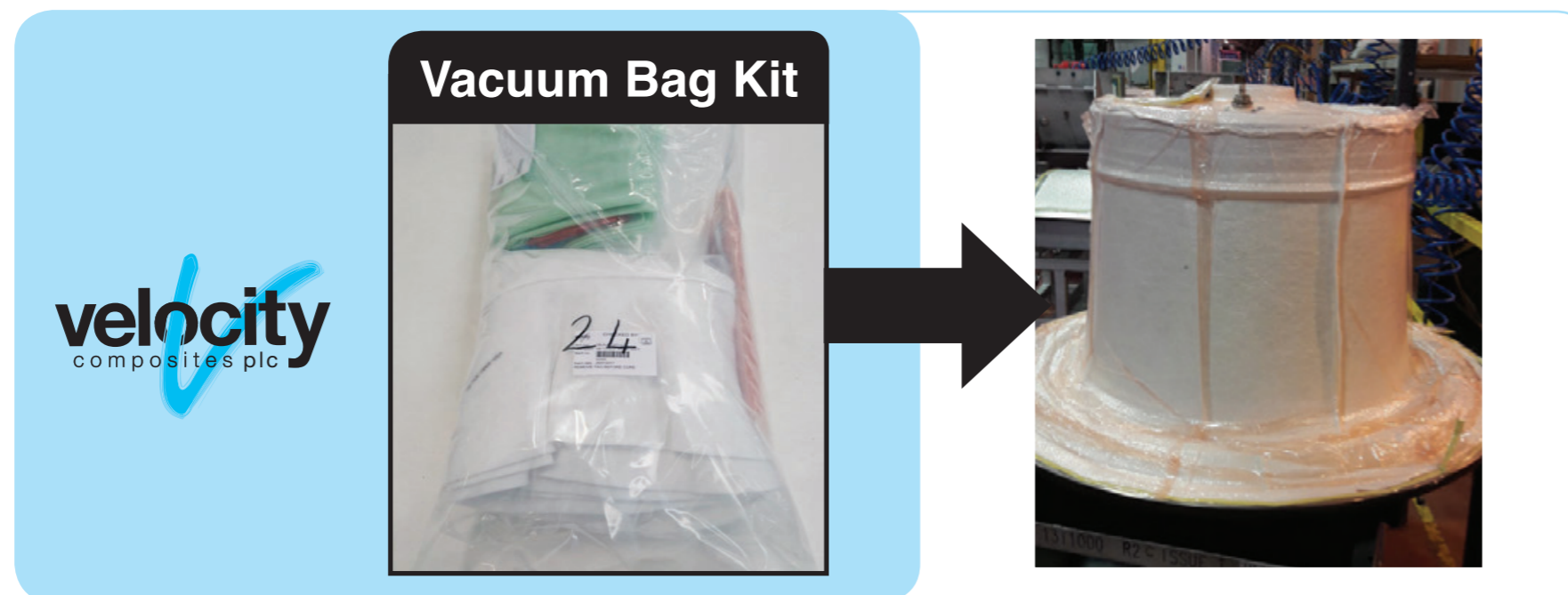
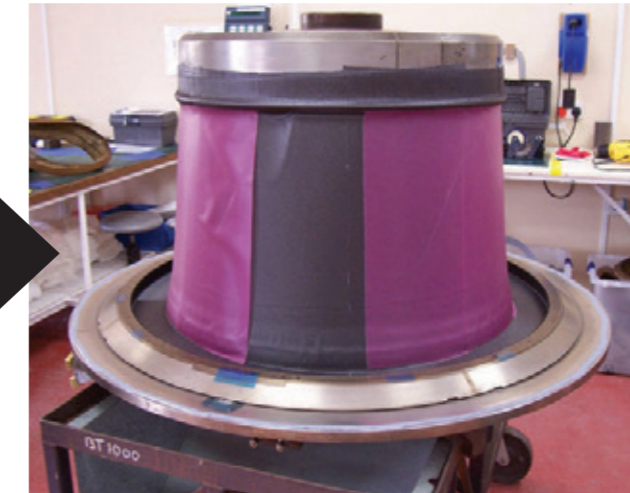
Global Demand Update

The Macro Aircraft Market Growth



- Over 41,000 aircraft to be delivered in next two decades
- Aircraft fleet growth >90% over next 20 years
- Introduction of new aircraft variants with higher proportions of composite material from both Airbus and Boeing from less than 25% to more than 50%
- Industry focused on more efficient manufacturing to deliver more for less
- In Asia 100m + people to fly for first time each year
- Aircraft fleets in Asia, middle East and South America are set to double in each of these regions

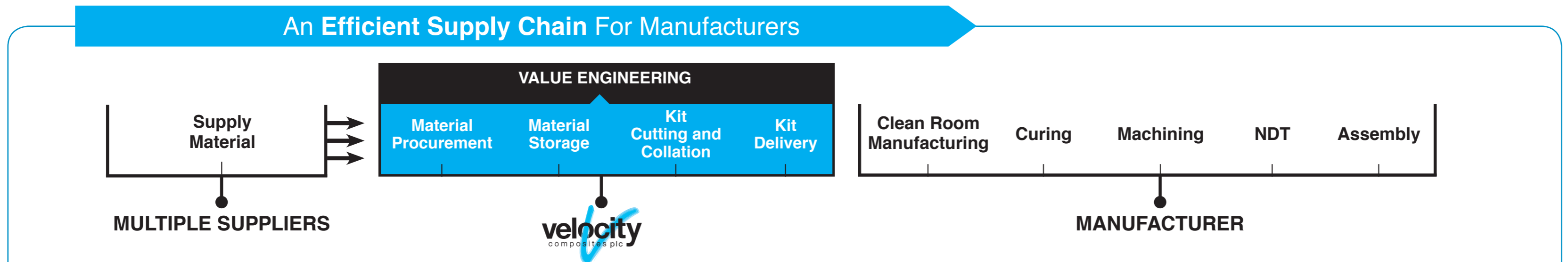
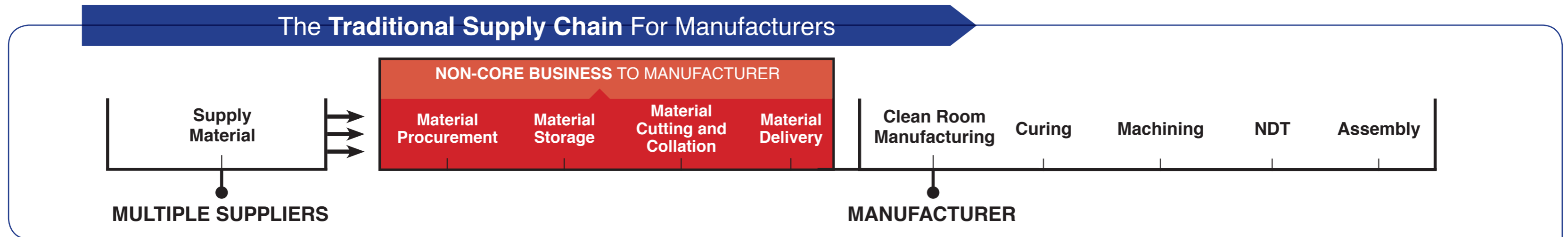
Velocity Process



Finished Part (1m diameter)

Saving > 10% material and > 20% time

The Composites Manufacturing Process



- Velocity:**
- **enables** customers & material suppliers to **focus on their core business**
 - **performs** its core business in a **controlled, cost efficient environment**
 - **becomes** a **single supplier** for our customers to deal with across a wide range of suppliers
 - **provides** a **cost effective, just in time service** delivering **a total kit containing all materials**

reduces customer costs whilst generating profits for Velocity

How Velocity adds value

Savings made by customers using Velocity

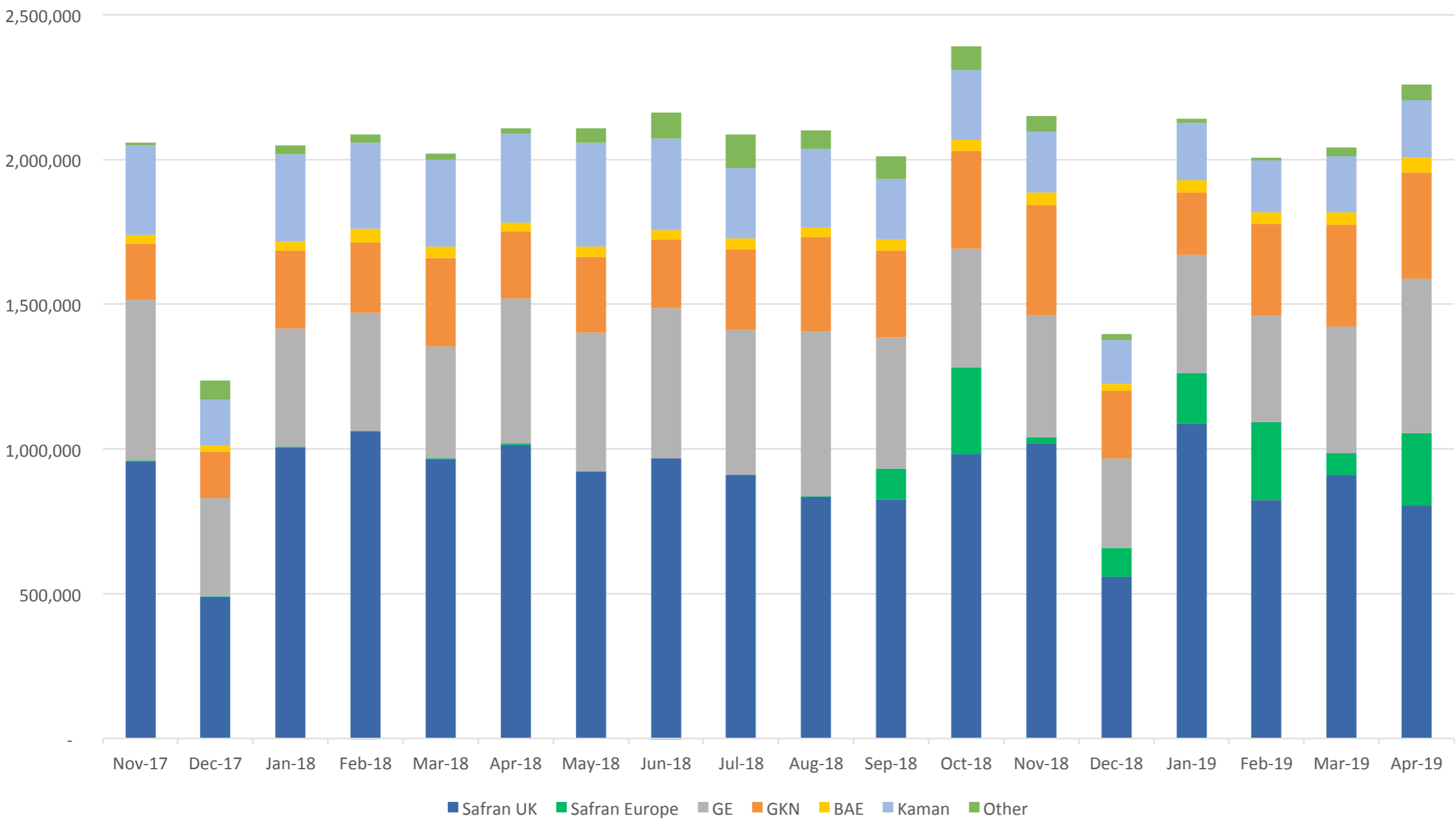
- Material spend reduced by 10 - 53% due to smarter nesting
- Material increase in productivity due to reduced production times
- Increase in productive cleanroom floorspace by removing associated equipment
- Cost of non quality products reduced/eliminated by more standardised process
- Reduction in capital equipment spend
- Indirect support staff costs reduced due to direct line feed
- Full material traceability & regulatory compliance
- Improved cashflow due to just in time deliveries

• **Industry is in a more-for-less era**



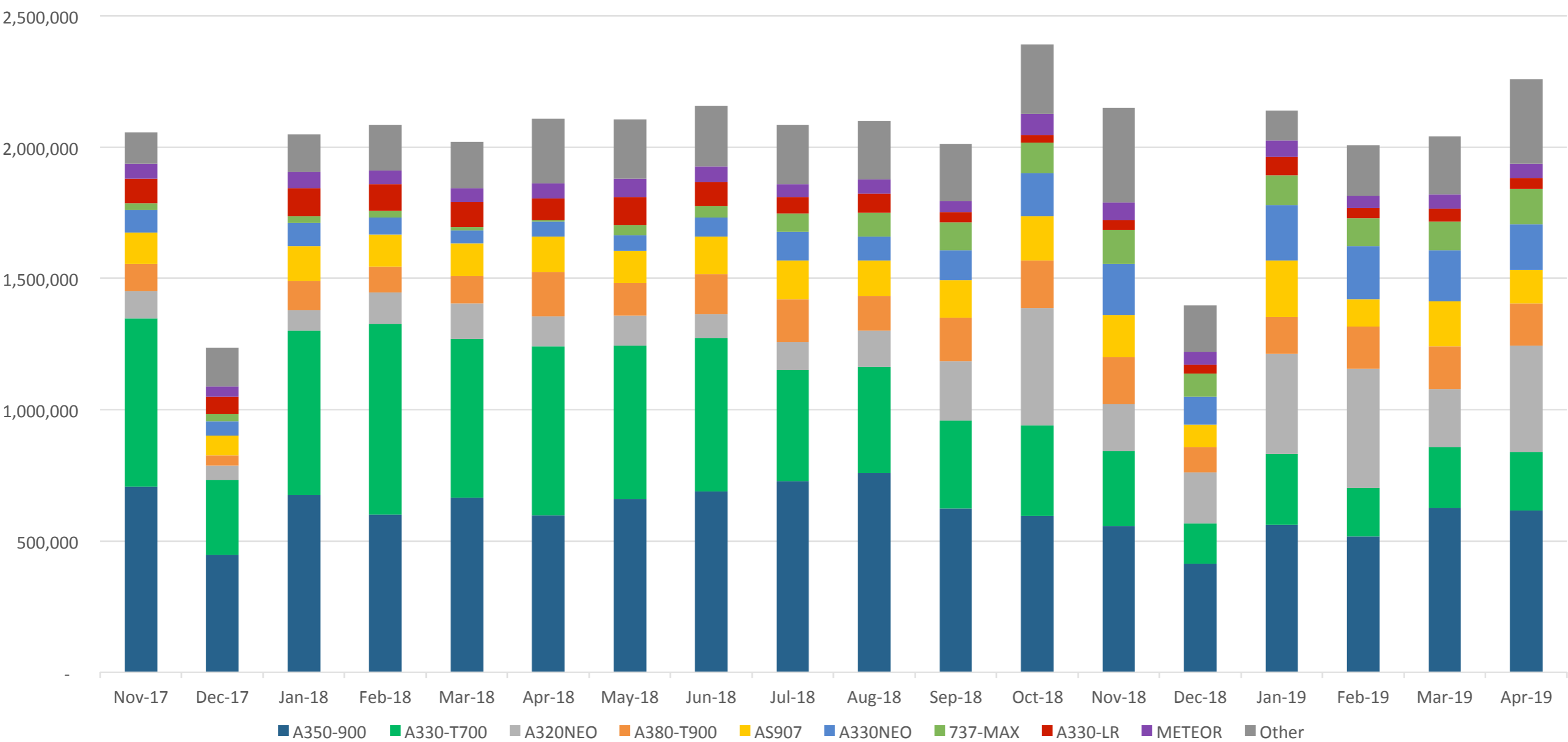
Revenue by Customer

Revenue mix by customer



Revenue by Aircraft

Revenue mix by aircraft



- Improved focus on Pipeline and actions required
- Business Development process reviewed and focusing on global Tier 1 customers
- Selling and Cost prices on plan leading to stable margins
- Focus on six key opportunities in Europe, including one with European partner, supported by existing facilities and one new planned facility in Europe
- Meetings held with a number of customers in USA with Wesco – confidence in SE USA facility
- Focus on three key opportunities in Asia to build awareness



- Supplier Brexit plans from all suppliers reviewed
- Buffer stock holdings increased across range with plan to de-stock by the end of October (additional c.£0.3m) meeting contracted buffer stock levels (overall holding 2 months stock)
- Extra red tape could increase transportation costs on incoming stock
- Contingent suppliers set up where required
- Only outgoing potential delivery issues to France
- Currency rate movement being managed through natural hedging (70%) and re-negotiation of contracts as they fall due
- Any Tariff changes flow through on contracts but Aerospace is zero tariffs
- No restriction on movement of people until end 2021 (less than 10% of our workforce)

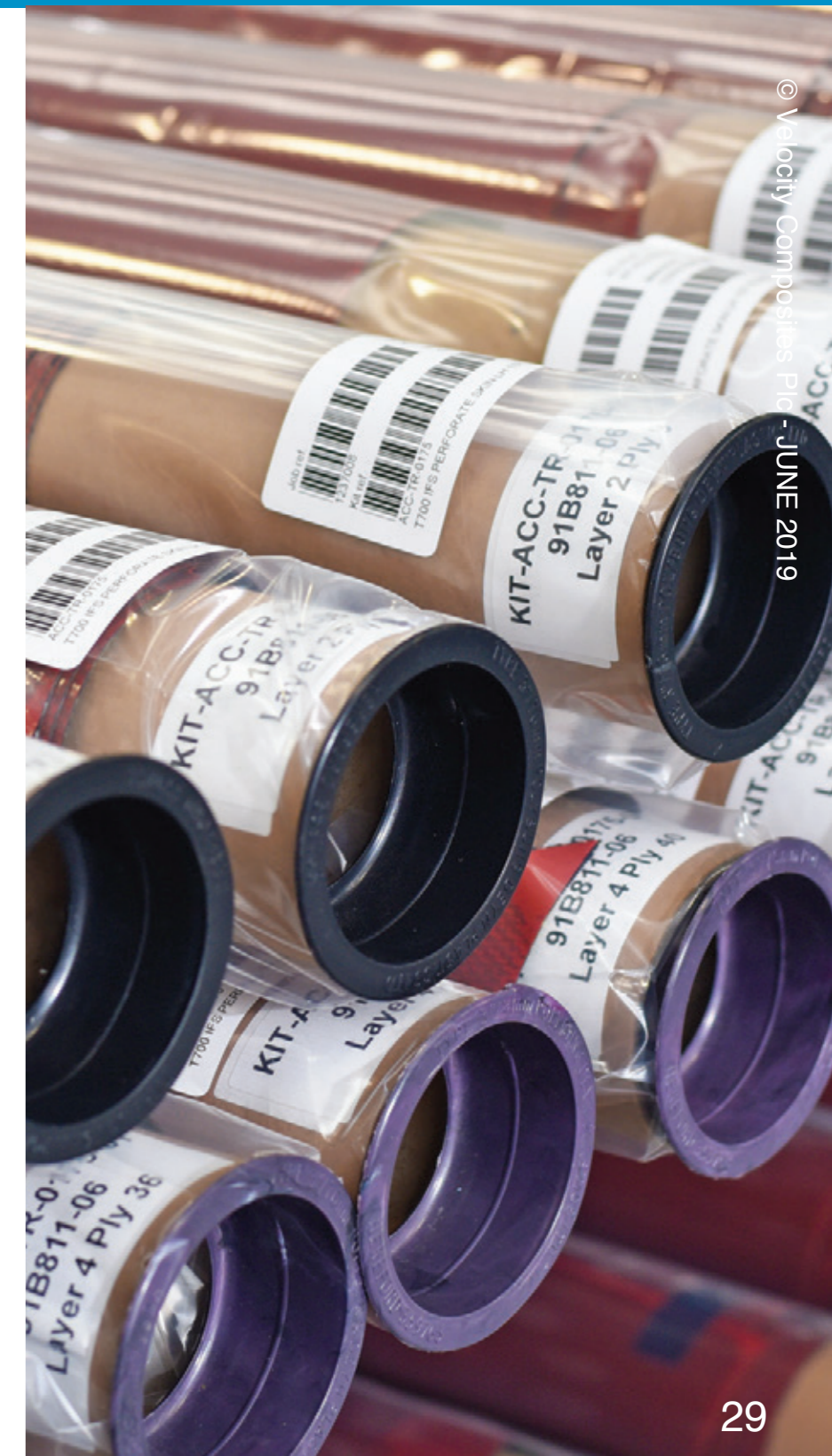
	H1 2019 £000	H1 2018 £000	31 Oct 18 £000
Revenue	12,243	11,622	24,478
Cost of sales	(9,679)	(9,856)	(19,991)
Gross profit	2,564	1,766	4,487
Administrative expenses	(2,571)	(2,694)	(5,322)
Exceptional admin expenses	(377)	-	(252)
Other operating income	4	9	15
Operating loss	(380)	(919)	(1,072)
Finance expense	(50)	(68)	(135)
Loss before tax	(430)	(987)	(1,207)
Income tax	-	175	213
Loss for the period	(430)	(812)	(994)
EPS (Basic / Diluted) (pence)	(£0.01)	(£0.02)	(£0.03)

	H1 2019 £000	H1 2018 £000	31 Oct 18 £000
Operating activities			
- Loss for the period	(430)	(812)	(994)
- Taxation	-	(175)	(213)
- Loss / (Profit) on disposal of assets	(1)	-	7
- Finance costs	50	68	135
- Amortisation of intangible assets	64	44	107
- Depreciation of property, plant and equipment	155	152	306
- Share-based payments	62	84	169
- Grant income amortisation	(4)	(9)	(15)
Operating cash flows before movements in working capital	(104)	(648)	(498)
- Decrease/(Increase) in trade and other receivables	1,088	428	424
- Decrease/(Increase) in inventories	(304)	284	522
- Increase in trade and other payables	(392)	147	98
Cash generated from operations	276	211	546
- Income taxes paid	-	34	(40)
Net cash (outflow)/inflow from operating activities	276	245	506

Appendices

Consolidated and Company statement of cash flows (continued)

	H1 2019 £000	H1 2018 £000	31 Oct 18 £000
Investing activities			
- Purchase of property, plant and equipment	(59)	(102)	(220)
- Development expenditure capitalised	(52)	(82)	(152)
- Proceeds from disposal of property, plant and equipment	-	-	-
Net cash used in investing activities	(111)	(184)	(372)
Financing activities			
- Proceeds from issue of shares	-	-	-
- Payments of share issue costs	-	-	-
- Finance costs paid	(50)	(68)	(135)
- Decrease in invoice discounting	(418)	436	(528)
- Repayment of finance lease capital	(64)	(89)	(159)
Net cash used in financing activities	(532)	279	(822)
Net (decrease) / increase in cash and cash equivalents	(355)	340	(688)
Cash and cash equivalents at beginning of period	4,726	5,414	5,414
Cash and cash equivalents at end of period	4,371	5,754	4,726



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