velocity composites plc

Investor Presentation

Half Year Results

For the six months ended 30th April 2021

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Contents

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Key Highlights

- Existing sales – Successful renewal of 3 largest customers
- Diversification – F35 approval and sales with ongoing discussions with large OEM
- Technology focussed flexible operating model progressing
- Margin improvements – Internal efficiency and operational performance
- Strong pipeline – Focus on US & UK opportunities
- Platform for growth – Large upside with high operational gearing for market recovery
- Liquidity remains robust with £3.5m cash at 30 April and net cash position supported by focussed working capital management and CBILS
- Further net cash inflow of £0.6m secured post period end through Top-up CBILS and asset financing with Close Brothers

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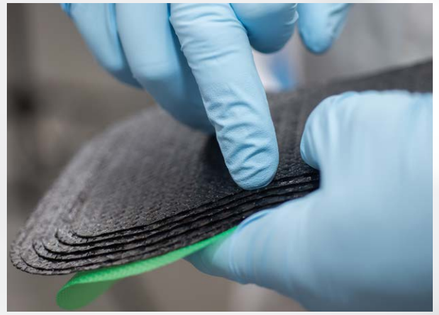
Market Outlook

- Acting with cautious optimism - market uncertainty until air travel resumes
- Airbus has started to increase production rates from 2022
- Expect recoveries to differ by platform, but 2-5 years to recover to long term trends
- Velocity is well placed:

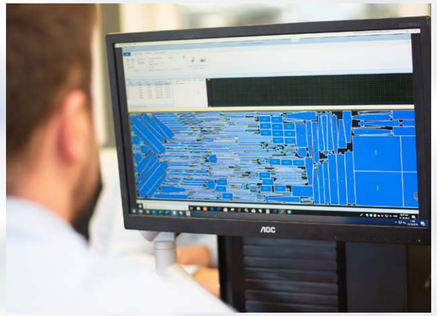
  Further reduced break even position down to £12m based on improved business model and reduced cost base

  Key existing customers contracted with profitable contract renewals at impacted rates

  Velocity new technology offering is increasingly relevant in current environment, and capable of rapid scale up with reduced capital requirements
- Robust liquidity to support position in the short-term and recovery and growth in the long-term





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Market Outlook (cont'd)

	INDUSTRY TRENDS & EXPECTATION	VC OPPORTUNITIES
Civil Single Aisle	• Early signs of recovery by 2023 • Anticipating ~33% total aerospace market share by 2030 • Dominated by A321XLR; expect NMA competitor & China maturity • Composite content on increase, likely wing structure adoption • Some hydrogen power developments, targeting smaller regional aircraft first	• Structural & Consumable kits and processing aids for engine & wing structures • Revenues live on A320, A220 & C919 platforms • +50% rates increase anticipated by 2023 **GROWTH** • Secondary fairing structures • Support for manufacturing of large, integrated primary structure
Civil Widebody / Twin Aisle	• Slower recovery expected post-2025 • Over-Capacity situation already present pre-COVID • Market share anticipated to be ~13.5% by 2030 • Less crowded sector with fewer OEM aircraft (A330neo/A350/B787/B777X) • Focus expected to be on further lowering adoption cost	• Structural kitting positions retained & growth captured in 2021 • Revenues live on A350, A330neo & B787 platforms • Rates at bottom of curve. Increases expected by 2023 **GROWTH** • Further expansion of services in UK – same platforms; greater volume • New Customers within USA
Defense Fixed Wing, Transport & Rotorcraft	• Strong performing sector – significant 'fifth generation' fighter backlog • Transport & Rotorcraft platforms crowded but some export opportunities exist • 'Sixth generation' fighters under conception/design • Drive to greatly reduce production costs through adopting new material & digital technologies	• Consumable kitting for UK manufacturing of fighter jets & transport aircraft • Revenues lives on F35, Typhoon & A400M • +18% increases in production rates experienced in 2021 **GROWTH** • Short-term realisation of structural kitting positions with UK customers • Longer-term opportunities around VC Technology efficiencies in digital manufacturing & material utilisation, both UK & USA

Business Model Development

- Model has been developed to allow customers to obtain the benefits of Velocity's technology without having the single option of full outsource
- High demand for the benefits of the technology package (lean, efficient, high quality, data driven continuous improvement)
- The new flexible model can be a combination of the following:
  - 100% offload to VC (original model)
  - 100% fully managed on-site service using VC technology
  - Hybrid of the above
  - All includes data driven supply chain management, with or without material purchase
  - Includes a combination of VC hardware and software (digital manufacturing service)
  - Supported by skilled VC engineering and service teams

Financial Summary

	HY 2021 £000	HY 2020 £000
Revenue	4,439	9,502
Cost of sales	(3,323)	(7,558)
Gross profit	**1,116**	**1,944**
Admin Costs	(2,110)	(2,589)
Exceptional admin expense	-	-
Other income	-	-
Operating loss	**(994)**	**(645)**
Finance expense	(65)	(40)
Loss before tax	**(1,059)**	**(685)**
Adjusted EBITDA profit/(loss) *	**(559)**	**(259)**

* Adjusted EBITDA defined as earnings before interest, tax, depreciation, amortisation, impairment, adjusted for share based payments.

- Revenue of £4.4m (H1 FY20: £9.5m) as the suppressed Covid-19 build rates impact
- Gross margin of 25.1% (H1 FY20: 20.5%) driven by successful technology improvements supporting stronger material margins
- Operating loss of £1.0m (H1 FY20: loss £0.6m). Despite sales decline adversely impacting profit by £1.0m, cost reductions and margin improvements offset to £0.4m impact
- Adjusted EBITDA loss of £0.6m (H1 FY20: loss £0.3m)
- Cash at Bank of £3.5m (H1 2020: £2.8m). Increase driven by CBILS facility drawn down Jul-20 and supported by focussed working capital management, particularly stock.
- Net cash position £1.1m (H1 2020:£1.5m)
- Outlook – breakeven at adjusted EBITDA during H2 FY21 with the challenge to recover to a consistently profitable run rate in FY22

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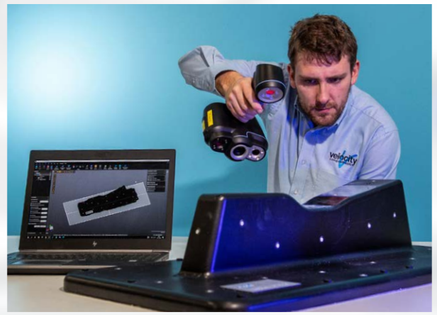
Summary

- Underlying business re-contracted for at least the next 3 years
- Technology developments and operational changes have significantly improved the breakeven point to below £12m
- Strong operational gearing ready for industry recovery
- Liquidity remains strong at £3.5m cash, with a further net cash inflow of £0.6m after period end to support recovery
- Covid-19 has significantly impacted the sector volumes and therefore VC's short term results
- Outlook – breakeven at adjusted EBITDA during H2 FY21 whilst still in a challenging market
- First signs of low rate recovery from recent Airbus announcements



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Appendices

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Velocity - What Do We Do?

- **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

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Velocity Process

Raw Material

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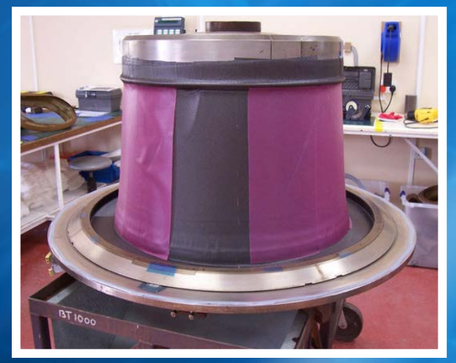
Structural Product



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Vacuum Bag Product

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Finished Part (1m diameter)

Saving > 10% material and **> 20% time**

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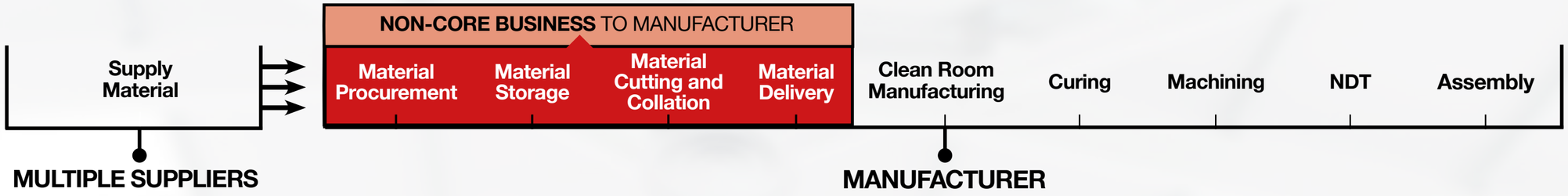
The Composites Manufacturing Process

The **Traditional Supply Chain** For Manufacturers



An **Efficient Supply Chain** For Manufacturers

- **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

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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

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Customer Engagement Lifecycle

INITIAL CUSTOMER ENGAGEMENT

- Visits
- Presentations
- Obtain RFQ and data

1 to 3 Months

BID RESPONSE

GATE 1 – Bid / No Bid

GATE 2 – Preliminary Solution Development Review

GATE 3 – Bid Submission

0.5 to 2 Months

CUSTOMER RFQ ASSESSMENT, DECISION AND PROJECT LAUNCH

- Customer once in a lifetime activity
- Difficulty for customer assessing Velocity response against unknown current costs
- Agreement in "Condition of Supply"
- Commercial agreement – LTA
- Customer delay in appropriate launch date (other business, resource, change etc)

1 to 12 Months

NEW PRODUCT INTRODUCTION

GATE 4 – Final Solution Review

GATE 5 – Production Readiness

GATE 6 – Sustain Delivery

1 to 3 Months

*Typical 18-24 month lifecycle

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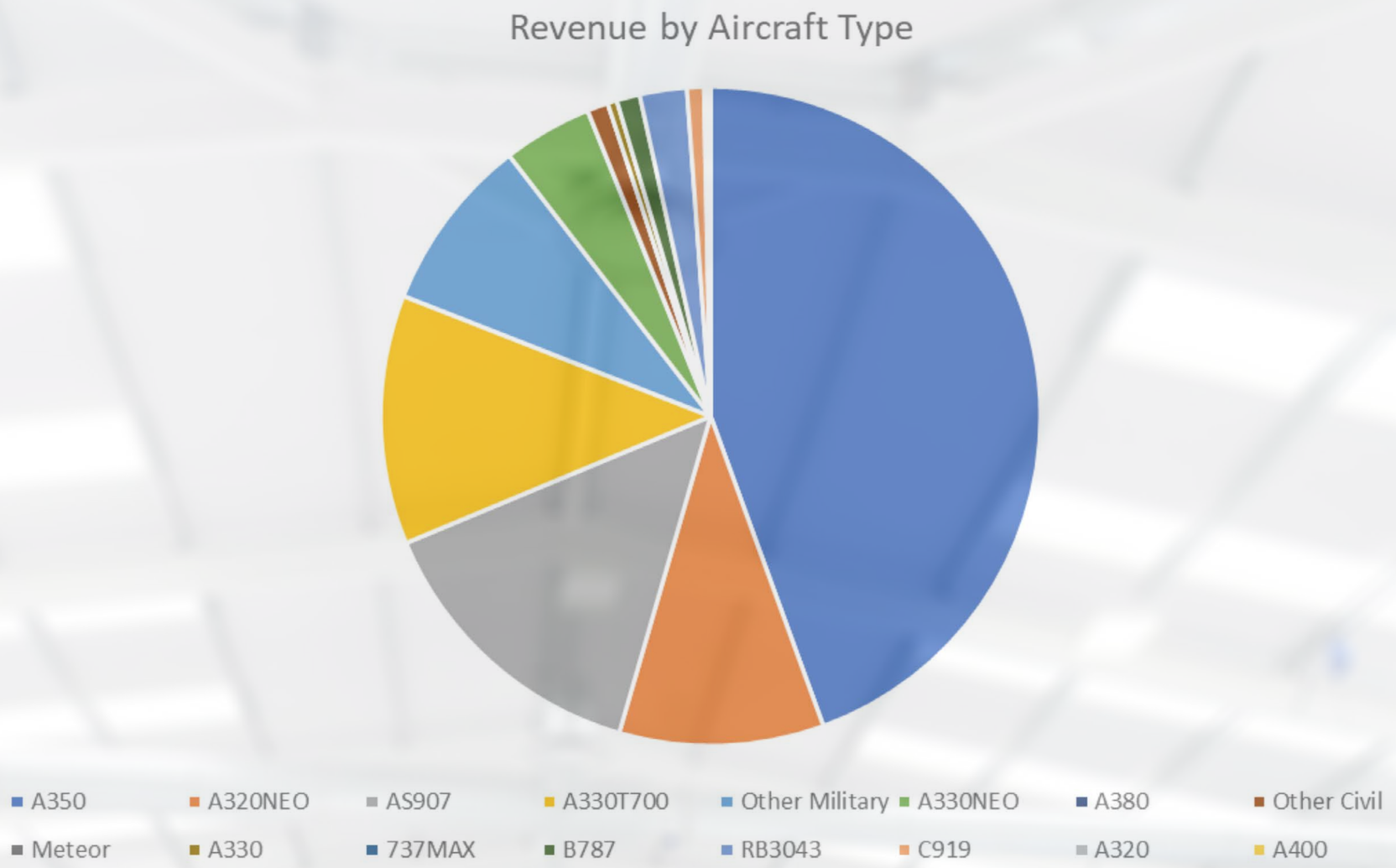
Velocity FY20 Revenue by Aircraft Type



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Financial Highlights

	HY 2021 £000	HY 2020 £000	FY 2020 £000
Revenue	4,439	9,502	13,561
Cost of sales	(3,323)	(7,558)	(11,237)
Gross profit	**1,116**	**1,944**	**2,324**
Admin Costs	(2,110)	(2,589)	(5,132)
Exceptional admin expense	-	-	(341)
Other income	-	-	-
Operating loss	**(994)**	**(645)**	**(3,149)**
Finance expense	(65)	(40)	(98)
Loss before tax	**(1,059)**	**(685)**	**(3,247)**
Adjusted EBITDA (loss)/profit*	**(559)**	**(259)**	**(1,925)**

*Adjusted EBITDA is before charging Interest, Tax, Depreciation, Amortisation, adjusted for exceptional administrative costs and share based payment charge

- Revenue decline due to impact of COVID-19 on underlying production rates
- Gross margin has increased by 4.6% to 25.1% in H1 21, supported by strong sales mix and technological developments supporting improved material margin delivery
- Cost improvement plan and Restructuring in late 2020 supporting reduction in Admin costs in current period and ongoing
- Finance cost slight increase on HY1 20 due to interest on the right of use asset of new Burnley site and Forex impact

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Full Balance Sheet

	HY 2021 £000	HY 2020 £000	FY 2020 £000
Non-current assets	**2,683**	**3,394**	**3,017**
Current assets			
- Inventories	769	3,361	1,908
- Trade & other receivables	2,477	2,924	2,464
- Cash and cash equivalents	3,450	2,841	3,268
Current liabilities			
- Trade & other payables	1,444	2,699	1,504
- Loans and Net obligations under finance leases	662	436	911
Non Current Liabilities – Loans and net obligations under	**2,590**	**1,252**	**2,560**
Net assets	**4,683**	**8,133**	**5,682**
Total equity attributable to equity holders	**4,683**	**8,133**	**5,682**

- Reduction in Non-current assets reflecting temporary capex freeze over period. Prior year spend of £0.7m in relation to the new Burnley site and R&D centre completion.
- Stock reduction drive and previous year end provisions against the risk of stock obsoletion has decreased stock balance by £2.5m to £0.8m
- Receivables reduced in line with customer sales mix and monthly sales profile over both periods
- Maintaining strong focus on cash collection and retention through working capital management resulted in cash at bank of £3.5m at period end
- During the year received CBILS loan £2m increasing non current liabilities, due to be paid over the next 5 years

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Cashflow Statement

	HY 2021 £000	HY 2020 £000	FY 2020 £000
Operating loss	**(1,059)**	**(618)**	**(3,130)**
Depreciation & amortisation	375	326	691
Other operating cash flows	114	32	173
(Increase)/decrease in receivables	(13)	1,225	1,685
Decrease/(increase) in inventories	1,139	(184)	1,269
(Decrease)/increase payables	(60)	(1,331)	(1,526)
Cash generated from operations	**496**	**550**	**(838)**
Taxation	-	142	-
Purchase property, plant and equipment	(41)	(730)	(156)
Development expenditure capitalised	-	(28)	(89)
Proceeds from the sale of PPE	10	-	15
Loan received	-	-	2,000
Finance lease proceeds	-	-	211
Finance costs	(64)	(39)	(98)
(Decrease)/increase in invoice discounting (ID)	-	807	-
Repayment of finance lease capital	**(219)**	**(185)**	**(404)**
Net (decrease) / increase in cash and cash equivalents	**182**	**(583)**	**(156)**
Cash and cash equivalents at end of period	**3,450**	**2,841**	**3,268**
Net cash after deducting ID	**3,450**	**2,030**	**3,268**

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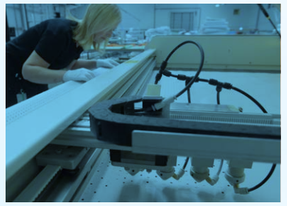
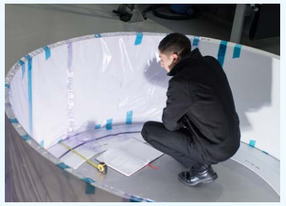



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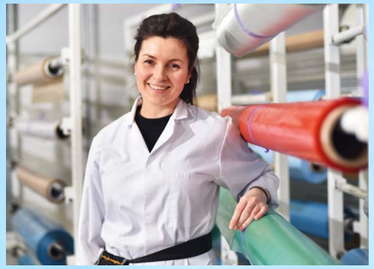


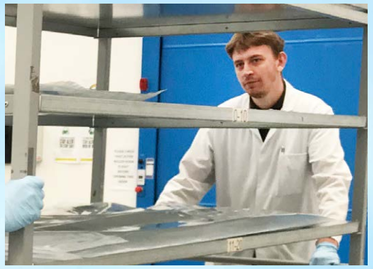


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