11 July 2023

VELOCITY COMPOSITES PLC

("Velocity", the "Company", the "Group")

Unaudited Half Year Results for the six months ended 30 April 2023

Velocity Composites plc (AIM: VEL), the leading supplier of composite material kits to aerospace and other high-performance manufacturers, is pleased to announce the Company's unaudited results for the six months to 30 April 2023.

Financial Highlights:

- Revenue increased 19% to £7.0m (2022: £5.9m) as aerospace sales volumes continued to recover post Covid-19, with improved UK demand.
- Gross margin of 21.8% (2022: 23.5%), reduced slightly due to a lag in the pass through of inflation to customers, with price increases now agreed and due to provide a greater recovery of costs in the second half.
- EBITDA loss of £0.9m (2022: loss of £0.2m), including £0.5m of upfront costs to setup the US site and new contract engineering costs.
- Loss before tax of £1.4m (2022: loss of £0.7m).
- Cash at bank as at 30 April 2023 of £1.2m (30 April 2022: £2.0m).

Operating Highlights:

- In April 2023, the US facility manufactured the first production kits to support the five-year Work Package Agreement announced in December 2022 with GKN Aerospace.
- The agreement with GKN Aerospace is expected to be worth in excess of US$100 million in revenue over five years.
- UK production has scaled to meet increased customer demand.
- Strong pipeline of new business in both the US and Europe.
- Longer-term, carbon fibre composite material usage is expected to grow significantly in civil aircraft and other transportation modes.
- Continued investment and development of the Company's technology.
- Remain on track to achieve profitability in FY 2024, as a result of a ramp up of existing contracts.

Outlook:

- The commercial value of contracted business is currently estimated to be worth between £30m to £36m per annum at OEM planned production rates.

Andy Beaden, Chairman, Velocity, said: *"Velocity is making excellent progress. Aerospace volumes continue to recover, and our US facility has started to manufacture production kits for GKN. While our initial investment in the facility has led to an EBITDA loss in the first half of the year, once the new business is at full production during 2024, we expect to move into EBITDA and positive PBT.*

"Since last year, the value of commercial business under contract has trebled. Looking ahead, we anticipate significant revenue growth in the coming years, particularly in North America, and also as more industries make greater use of composite material technologies to meet environment targets. We are excited about the Company's long-term prospects."

Enquiries:

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About Velocity Composites
Based in Burnley, UK, Velocity Composites is the leading supplier of composite material kits to aerospace and other high-performance manufacturers, that reduce costs and improve sustainability. Customers include Airbus, Boeing, and GKN.

By using Velocity's proprietary technology, manufacturers can also free up internal resources to focus on their core business. Velocity has significant potential for expansion, both in the UK and abroad, including into new market areas, such as wind energy, urban air mobility and electric vehicles, where the demand for composites is expected to grow.

Chairman's Statement

Overview

Demand is starting to accelerate as the aerospace industry prepares for significant expansion in the manufacture of new generations of aircraft and, therefore, an expected increase in the use of composite materials to enable the necessary lightweighting to meet environmental targets.

Revenue increased 19% as a result of improved UK demand and customer production rates. At the same time, we have commissioned our new US facility in Alabama, and started the First Article Inspection processes. This will transfer approximately £16m of new business per annum from GKN's Tallassee, Alabama operations. This process will continue through FY 2023, with the objective of realising the full run-rate value of this five-year US$100 million contract in 2024.

The macroeconomic conditions are challenging. High inflation has impacted our short-term gross margin through higher energy and staff costs. The Group implemented price increases in the first half to help recover these costs in the latter half of the full year. Furthermore, we invested heavily in upfront costs in terms of delivering the necessary engineering and product/services technologies required in the US. This investment was part of the onboarding of the new business from GKN in Tallassee. These costs will recover over the length of the contract. This initial US investment, led to an EBITDA loss in the first half of the year. However, once the new business is at full production during 2024, we expect to move into positive EBITDA and Profit Before Tax.

There is also significant new business activity across our customer base. We are quoting for additional work in the US and Europe, predominantly with existing customers, but also new customers that have expressed an interest in Velocity's US presence. This includes establishing working relationships with aerospace distributors, as we seek to build out our US sales capabilities.

We continue to tightly control our working capital and cash flow and have also benefitted from customer finance solutions to aid the trebling of the current business, when compared to FY 2022.

Financial Performance

As noted, revenue in the period grew 19% to £7.0m (2022: £5.9m) as 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. Price increases have been successfully agreed with key customers and will provide a greater benefit in the second half.

Gross margin has reduced slightly to 21.8% (2022: 23.5%) although has started to move towards the longer-term target of 25% in the latter months of the period.

Administrative expenses of £2.8m are higher than last year's costs of £2.0m, with approximately £0.5m relating to the investment in the development of the US facility. Increased utility costs and the movement in the GBP to USD exchange rate are also impacting expenses.

As a result, reported EBITDA is a loss of £0.9m (2022: £0.2m loss), although an improvement is anticipated in the second half of the year as the US facility increases production towards contracted rates. Loss before tax from continuing operations increased to £1.4m (2022: loss of £0.7m).

Cash as at 30 April 2023 was £1.2m and net debt was £1.8m. As production moves towards contracted rates in the US, working capital will be supported by supply chain finance lines provided by GKN, 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. The Company continues to access its invoice discounting facility in the UK and also holds debt relating to Coronavirus Business Interruptions Loans which are being repaid by instalments with the final amounts due in 2026.

Investment in Growth & Customer Proposition

Velocity continues to maintain the required investment to support its growth and R&D activities. The Company has been able to self-fund this through the pandemic, which suppressed short-term demand in the aerospace manufacturing sector, with the UK civil aerospace sector particularly hard hit.

In addition, work has been done to develop the Company's customer proposition through investment in R&D. A new "Digital Manufacturing Cell" that enables further standardisation and automation of production is expected to be deployed in the second half of the year. It is likely to improve future gross margin through material and labour efficiencies. The Digital Cell combines with our composite tailored material planning technology, Velocity Resource Planning, or VRP. These technology hardware and software systems enable the efficiencies in our services to customers, in labour, materials and inventory levels.

Outlook

The Company has 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.

The current UK and US manufacturing facilities are being expanded to meet this rapid increase in the order book. The new US facility can be doubled again in capacity, to meet further new business and contracted volumed growth, of up to £70m.

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.

Andy Beaden
Non-Executive Chairman
11 July 2023

Condensed consolidated statement of total comprehensive income
for the 6 months ended 30 April 2023

	Note	6 months ended 30 April 2023 (unaudited)	6 months ended 30 April 2022 (unaudited)	12 months ended 31 October 2022 (audited)
		£'000	£'000	£'000
Revenue	3	6,980	5,864	11,959
Cost of sales		(5,459)	(4,487)	(9,213)
Gross profit		1,521	1,377	2,746
Administrative expenses		(2,806)	(2,003)	(4,063)
Operating loss		(1,285)	(626)	(1,317)
Operating loss analysed as:				
Adjusted EBITDA		(858)	(189)	(452)
Depreciation of property, plant and equipment		(116)	(105)	(210)
Amortisation		(20)	(32)	(53)
Depreciation of right-of-use assets under IFRS 16		(206)	(215)	(432)
Share-based payments		(85)	(85)	(170)
Finance income and expense		(152)	(84)	(187)
Loss before tax		(1,437)	(710)	(1,504)
Corporation tax recoverable		-	-	167
Loss for the period and total comprehensive loss		(1,437)	(710)	(1,337)
Loss per share - Basic (pence per share)	4	(£0.04)	(£0.02)	(£0.04)
Loss per share - Diluted (pence per share)	4	(£0.04)	(£0.02)	(£0.04)

The notes below form part of this interim report.

Condensed consolidated statement of financial position at 30 April 2023

	Note	As at 30 April 2023 (unaudited)	As at 30 April 2022 (unaudited)	As at 31 October 2022 (audited)
		£'000	£'000	£'000
Non-current assets				
Intangible assets		499	59	173
Property, plant and equipment		1,739	957	1,099
Right-of-use assets		2,299	1,471	2,269
Total non-current assets		4,537	2,487	3,541
Current assets				
Inventories		1,633	948	1,407
Trade and other receivables		2,976	3,361	2,521
Corporation tax		-	-	-
Cash and cash equivalents		1,208	2,038	2,344
Total current assets		5,817	6,347	6,272
Total assets		10,354	8,834	9,813
Current liabilities				
Loans		536	530	503
Trade and other payables		4,298	1,258	2,207
Obligations under lease liabilities		470	245	405
Total current liabilities		5,304	2,033	3,115
Non-current liabilities				
Loans		1,222	1,730	1,506
Obligations under lease liabilities		1,779	1,129	1,792
Total non-current liabilities		3,001	2,859	3,298
Total liabilities		8,305	4,892	6,413
Net assets		2,049	3,942	3,400
Equity attributable to equity holders of the company				
Share capital	5	92	91	91
Share premium		9,727	9,727	9,727
Share-based payments reserve		769	624	684
Retained earnings		(8,539)	(6,500)	(7,102)
Total equity		2,049	3,942	3,400

The notes below form part of this interim report.

The financial statements were approved and authorised for issue by the Board of Directors on 10 July 2023 and were signed on its behalf by:

Adam Holden
Company Secretary Company Number: 06389233

Condensed consolidated statement of changes in equity for the 6 months ended 30 April 2023

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 2021		91	9,727	(5,790)	539	4,567
Loss for the period		-	-	(710)	-	(710)
		91	9,727	(6,500)	539	3,857
Transactions with shareholders:						
Share-based payments		-	-	-	85	85
As at 30 April 2022		91	9,727	(6,500)	624	3,942
Loss for the period		-	-	(627)	-	(627)
		91	9,727	(7,127)	624	3,315
Transactions with shareholders:						
Share-based payments		-	-	-	85	85
Vesting of share options		-	-	25	(25)	-
As at 31 October 2022		91	9,727	(7,102)	684	3,400
Loss for the period		-	-	(1,437)	-	(1,437)
		91	9,727	(8,539)	684	1,963
Transactions with shareholders:						
Share-based payments		1	-	-	85	86
As at 30 April 2023		92	9,727	(8,539)	769	2,049

The notes below form part of this interim report.

Condensed consolidated statement of cash flows
for the 6 months ended 30 April 2023

	6 months ended 30 April 2023 (unaudited)	6 months ended 30 April 2022 (unaudited)	12 months ended 31 October 2022 (audited)
	£'000	£'000	£'000
Operating activities			
Loss for the period	(1,437)	(710)	(1,337)
Taxation	-	-	(167)
Profit on sale of assets	(4)	-	(38)
Finance costs	152	84	187
Amortisation of intangible assets	20	32	53
Depreciation of property, plant and equipment	116	105	210
Depreciation of right-to-use assets	206	215	432
Share-based payments	85	85	170
	(862)	(189)	(490)
Operating cash flows before movements in working capital			
(Increase) in trade and other receivables	(455)	(1,199)	(359)
(Increase) in inventories	(226)	(71)	(530)
Increase in trade and other payables	2,091	200	1,149
Cash from operations	548	(1,259)	(230)
Income taxes received	-	341	510
Net cash inflow from operating activities	548	(918)	280
Investing activities			
Purchase of property, plant and equipment	(756)	(9)	(262)
Purchase of development expenditure	(346)	-	(136)
Proceeds from disposal of property, plant and equipment	4	-	42
Net cash used in investing activities	(1,098)	(9)	(356)
Financing activities			
Finance costs paid	(151)	(84)	(187)
Loan repayment	(251)	(252)	(503)
Repayment of lease liabilities capital	(184)	(175)	(366)
Net cash used in financing activities	(586)	(511)	(1,056)
Net Decrease in cash and cash equivalents	(1,136)	(1,438)	(1,132)
Cash and cash equivalents at beginning of period/year	2,344	3,476	3,476
Cash and cash equivalents at end of period/year	1,208	2,038	2,344

The notes below form part of this interim report.

Notes to Interim Report

1. General information

Velocity Composites plc (the 'Company') is a public limited company incorporated and domiciled in England and Wales. The registered office of the company is AMS Technology Park, Billington Road, Burnley, Lancashire, BB11 5UB, United Kingdom. The registered company number is 06389233.

The Company holds shares in a wholly owned subsidiary company, Velocity Composites Sendirian Berhad, which is domiciled in Malaysia. During this financial period, the Company has provided engineering services to the Group. The Company also wholly owns Velocity Composites Aerospace Inc. to prepare for future expansion in the United States of America. These subsidiaries together with Velocity Composites plc, now forms the Velocity Composites Group ('the Group').

The Group's principal activity is that of the sale of kits of composite material and related products to the aerospace industry.

The condensed consolidated interim financial statements are unaudited and do not constitute statutory financial statements within the meaning of Section 435 of the Companies Act 2006. The review report on these interim financial statements is set out below. The financial information for the year ended 31 October 2022 has been derived from the published statutory financial statements for the Company. A copy of the full accounts for that period, on which the auditor issued an unmodified report that did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006, has been delivered to the Registrar of Companies.

These interim financial statements will be available from the Company's website at www.velocity-composites.com.

2. Accounting policies

Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 30 April 2023. This interim financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', in accordance with UK-adopted international accounting standards, and has been prepared using consistent accounting policies as applied in the Company's full year accounts to 31 October 2022 and as expected to be applied in the full year accounts to 31 October 2023. They have therefore been prepared in compliance with the measurement and recognition criteria of UK-adopted international accounting standards.

These financial statements have been prepared on a going concern basis and using the historical cost convention, as stated in the accounting policies. These policies have been consistently applied to all periods presented, unless otherwise stated.

The financial statements are presented in sterling and have been rounded to the nearest thousand (£'000) except where otherwise indicated.

No new standards have been adopted for the first time in the current financial year.

Going concern

Management continues to undertake a significant level of cash flow forecasting and detailed financial projections for the period to 31 October 2025 have been prepared. A number of sensitivities have been performed to understand the cash flow impact of various scenarios which continue to show that the business has sufficient liquidity to continue trading as a going concern.

The aerospace sector lends itself to long-term planning due to the nature and length of customer programmes, typically a minimum of three years, but often five years or more. This has enabled the business to fully model the period to 31 October 2025 and incorporate more strategic, longer-term planning for growth as the industry continues its recovery from the pandemic.

2. Accounting policies (continued)

Going concern (continued)
Cash flow forecasts are reviewed monthly through Management's Integrated Business Planning (IBP) process and the assumptions updated for any new knowledge to ensure there is no change in the Group's liquidity outlook. This is linked in with Management's monthly risk review and should the outlook change significantly with no mitigating actions, the Group's liquidity risk rating on the risk register will be adjusted to reflect this and subsequently discussed at Board level.

The latest financial projections incorporate revenue forecasts based on current demand in both the UK and US, plus a weighting of opportunities in the pipeline. It is important that the business continues to move towards full rate production in the US in order to meet this customer demand, generating revenue and cash in the process. The cost base included in the projections is reflective of the significant cost reductions that have already taken place in the Group, but also realistic about the investment required to continue to implement growth.

It is this investment in growth and technological advancements that has resulted in the forecasts indicating that the Group's Invoice Discounting Facility, secured against Trade Debtors, will be utilised during the going concern period. Whilst this facility is designed to be short-term and can be withdrawn with 3 months' notice, the latest discussions have reflected the bank's support for Velocity's growth strategy and as such we expect this facility will remain available for the foreseeable future. The Group is also reliant on the supply chain facilities and support offered by the current US customer as it continues to develop the Tallassee site and move towards full rate production and again, it is the expectation that this will remain in place.

Should alternative financing be required, the Group would preserve cash by delaying further investment activities until longer-term funding could be implemented, such as asset-based financing against new capital expenditure or equity funding.

Having due regard for the latest deliverables and latest projections, together with the facilities available, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern.

3. Segmental analysis

The Group supplies a single range of kitted products into a single industry and so has a single segment. Additional information is given below regarding the revenue receivable based on geographical location of the customer.

	6 months ended 30 April 2023 (unaudited)	**6 months ended 30 April 2022 (unaudited)**	**12 months ended 31 October 2022 (audited)**
	£'000	£'000	£'000
Revenue			
United Kingdom	6,844	5,813	11,906
Rest of Europe	6	20	10
Rest of World	130	31	43
	6,980	5,864	11,959

Four customers of the Group are responsible for over 90% of the total revenue in each of the periods presented. The majority of revenue arises from the sale of goods. Where engineering services form a part of revenue it is only in support of the development or sale of the goods.

4. Reconciliation of reported earnings per share

	6 months ended 30 April 2023 (unaudited)	6 months ended 30 April 2022 (unaudited)	12 months ended 31 October 2022 (audited)
	£'000	£'000	£'000
Loss for the period/year	(1,436)	(710)	(1,337)
Weighted average number of shares	**Shares**	**Shares**	**Shares**
Weighted average number of shares in issue	36,600,099	36,318,130	36,371,065
Weighted average number of share options	2,254,694	2,036,458	2,110,897
Weighted average number of shares (diluted)	38,854,793	38,354,588	38,481,962

Share options have not been included in the diluted loss per share calculation as they would be anti-dilutive with a loss being recognised.

	6 months ended 30 April 2023 (unaudited)	6 months ended 30 April 2022 (unaudited)	12 months ended 31 October 2022 (audited)
	£	£	£
Loss per share			
Basic & Diluted	(£0.04)	(£0.02)	(£0.04)

5. Share capital of the Company

	Number of shares	Share capital	Share premium
		£	£
Share capital issued and fully paid			
Ordinary shares of £0.0025 each as at 31 October 2021	36,303,064	90,758	9,727,158
Shares issued to satisfy exercise of share options on 5 April 2022	108,475	271	-
Ordinary shares of £0.0025 each as at 30 April 2022	36,411.539	91,029	9,727,158
Shares issued to satisfy exercise of share options on 28 May 2021	47,458	118	-
Ordinary shares of £0.0025 each as at 31 October 2022	36,458,997	91,147	9,727,158
Shares issued to satisfy exercise of share options on 6 March 2023	461,788	1,155	-
Ordinary shares of £0.0025 each as at 30 April 2023	36,920,785	92,302	9,727,158

Ordinary shares carry the right to one vote per share at general meetings of the Company and the rights to share in any distribution of profits or returns of capital and to share in any residual assets available for distribution in the event of a winding up.

6. Capital commitments

At 30 April 2023 the Group had £Nil (2022: £Nil) of capital commitments relating to the purchase of leasehold improvements, plant and machinery and fixture and fittings.

Independent Review Report to Velocity Composites plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2023 which comprises the condensed Consolidated Statement of Comprehensive income, the condensed Consolidated Statement of Financial Position, the condensed Consolidated Statement of Changes in Equity, the condensed Consolidated Statement of Cash Flows and the related notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with UK adopted IFRSs. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting.

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of Directors

The directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Cooper Parry Group Limited

Statutory Auditor

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Date