RNS Number : 5021F
Velocity Composites PLC
17 November 2020

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

**Trading update**

Velocity Composites plc (AIM: VEL), the leading supplier of advanced composite material kits to the aerospace sector, provides the following trading update in relation to the year to 31 October 2020.

As reported by the Company in its interim results for the six months ended 30 April 2020, trading for the first four months of the year to 31 October 2020 was in line with management expectations, but the remainder of the year has been impacted adversely by the COVID-19 pandemic. This has impacted on Velocity in the short-term through customer shut-downs and an industry-wide reduction in build-rates. Prospects for the current year remain subdued with no imminent indications of significant increases to build rates on major civil aircraft programmes as set by the primary manufacturers Boeing and Airbus.

The Company has responded swiftly to the reduced level of activity through implementation of a significant cost reduction programme, including approximately 40% reduction in staffing numbers and a restructuring of the remaining management and staff. Senior executives and the Directors have also agreed to a 20% deferment of cash base salaries, with the deferred payments intended to be settled by way of the issue of share options of a similar value to the foregone salary. A further announcement will be made in this regard in due course.

The Company anticipates that sales revenues for the year to 31 October 2020 will be approximately £13.6m (FY2019: £24.2m) and expects to report an adjusted EBITDA Loss[1] for the year of approximately £1.8m (FY2019:Adjusted EBITDA  £0.6m).

As a result of the cost restructuring exercise undertaken the Board anticipates that going forward the Company would be EBITDA break-even at FY2020 levels of revenues. The Company is now highly operationally geared, such that any significant recovery in activity, even if only to below pre-pandemic levels, will have a strong positive impact on future profitability.

Current activity levels are challenging, and H1 2021 has begun and is expected to continue with revenues similar to those in H2 2020 assuming additional lockdowns and short-term customer shutdowns through the winter months. The Company has, however, in place a robust level of liquidity and funding to support the Company during this disruptive period and the Board is cautiously optimistic as to the prospects for future growth.

Despite current challenges Velocity has made excellent progress in its new business development, particularly with its long-term customers and reduced revenues have been as a result of lower levels of end client activity, not by virtue of client losses. Even with a slow recovery in build rates, and with further disruption throughout this winter, it is now once again realistic to foresee growth in the future.

As reported at the half year, a new commercial proposition has been rolled out to customers to aid their own cost reduction objectives and this is supporting a significant number of new business programmes commencing in 2021, some of which have now been confirmed. These take time to agree and implement, with some qualifications required, but even based on the very subdued industry build rates, new business initiatives would aid recovery in the second half of 2021 and lead to a significant recovery in both revenues and profitability in 2022.

The new business also means that when the longer-term build rates recover on new civil aircraft platforms, the potential upside to Velocity is significantly higher even than the pre-COVID-19 position.

To support the Company during this period of disruption and recovery, our corporate bankers have agreed to extend the repayment schedule of our Coronavirus Business Interruption Loan ("CBIL") of £2.0m from over two years to six years, starting in July 2021 and ending July 2026. The Company also retains its Invoice Discounting Facility ("IDF"), which can fund up to £5.0m of receivables. As at 31 October 2020, the Company maintained cash at bank of £3.3m, being £0.8m of EIS designated funds and £2.5m of free cash. As at the same date, the Company was in a net cash position of £0.9m, net of the £2.0m CBIL liability and £0.4m hire purchase agreement liabilities, with the IDF undrawn

To further aid liquidity, an inventory reduction programme has also been implemented. This is in co-operation with suppliers and customers, to minimise any inventory write-offs. The programme is on-going and is expected to yield a further £0.5m of cash by mid-2021.

Recent positive developments regarding a possible widely available vaccine for Covid-19 suggests that as economies recover, demand for air travel will return to the benefit of the entire aerospace sector. There is also long-term demand for new aircraft to replace older fleets, a number of which have been retired early during the pandemic, for both environmental and economic efficiency reasons. These newer aircraft have higher composite material content, increasing the industry demand for Velocity's kitting technology.

**Jon Bridges, Chief Executive Officer of Velocity, said:**

*"Clearly 2020 has been an unprecedented year in the aerospace industry due to the global 70% reduction in air travel and the OEM's immediate reduction in aircraft production rates to minimal levels. Our collaborative approach between Velocity, our customers and the raw material suppliers has sought to mitigate the impact of this. We continue to work with all parties to ensure Velocity is rightsized to deliver on our current programmes whilst continuing to respond to new business opportunities to*

*support our customers as they look even harder to reduce costs. Whilst the immediate disruption is painful, our customer proposition is even more relevant and there are positive signs that the recovery will start in 2021 and through 2022. The changes we have made allow us to weather the disruption and be in a stronger position as both production rates and new business combine to return the company to pre-pandemic levels with a resilient and focused team*".

**Andy Beaden, Chairman of Velocity, said:**

"*As a Board, our pandemic priority has been ensuring that the business has more than adequate liquidity, along with supporting our customers and suppliers. Difficult decisions have had to made, with significant and swift staffing reductions, but the business is now leaner and better focussed to aid the recovery and growth cycle within the industry in 2021, 2022 and beyond. Retaining and winning new business in such a business environment underlines the value-add of the superb Velocity Composites team.*"

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

(1) EBITDA adjusted for restructuring exceptional items and shared based payments

**Enquiries:**


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| **Velocity** | +44 (0) 1282 577577 |
| Andy Beaden, Chairman | |
| Jon Bridges, Chief Executive Officer | |
| Chris Williams, Finance Director | |
| | |
| **Cenkos** (Nominated Adviser and Broker) | +44 (0)20 7397 8900 |
| Russell Cook | +44 (0)20 7397 1977 |
| Ben Jeynes | +44 (0)20 7397 1974 |
| | |
| **Belvedere Communications** (Financial PR) | VelocityPR@belvederepr.com |
| Cat Valentine | +44 (0) 7715 769 078 |
| Keeley Clarke | +44 (0) 7967 816 525 |

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