

Company Information

Registered number	06389233	
Registered office	AMS Technology Park Billington Road Burnley Lancashire BB11 5UB	
Directors	Jonathan Karl Bridges Alan Mark Kershaw Mark Richard Mills Peter Graham Turner	
Secretary	Alan Mark Kershaw	
Bankers	National Westminster Bank 1 Spinningfields Square Manchester M3 3AP	Royal Bank of Scotland 1 Hardman Boulevard Manchester M3 3AQ
Solicitors	DWF LLP 1 Scott Place 2 Hardman Street Manchester M3 3AA	
Independent Auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 4 Hardman Square Spinningfields Manchester M3 3EB	
Nominated Adviser & Broker	finnCap Limited 60 New Broad Street London EC2M 1JJ	
Financial PR Advisers	Camarco 107 Cheapside London EC2V 6DN	
Registrars	Equiniti plc Aspect House Spencer Road Lancing West Sussex BN99 6DA	

Contents

	page
Highlights	4
Chairman's statement	5-6
Chief Executive Officer's report	7-9
Condensed consolidated statement of total comprehensive income	10
Condensed consolidated statement of financial position	11
Condensed consolidated statement of changes in equity	12
Condensed consolidated statement of cash flows	13
Notes to the interim report	14-15
Independent review report to the members of Velocity Composites plc	16-17

Highlights

For the six months ended 30 April 2018

Financial

- Continued revenue growth up 25% to £11.6m (H1 FY17 £9.3m)
- Gross profit delivered a contribution of £1.8m (H1 FY17 £1.9m)
- Overall gross margin for period of 15.2%, with continued improvements resulting in April of 18.2%
- Operating loss of £919k (H1 FY17 £208k), reflecting continued investment in international growth
- At 30 April 2018, cash on balance sheet of £5.8m, net cash of £4.2m

Operational

- NADCAP special process accreditation in March 2018 for Composites scope KSP (Kitting Service Provider)
- Long term agreement with existing customer for Boeing 737 Max programme through to December 2021
- Long term agreement with new European customer for LEAP engines for Airbus A320 NEO and Boeing 737 Max programmes through to December 2020

Outlook

- Board remains confident of meeting the market's revised full year expectations, subject to customer demand fluctuations
- Customer and programme pipeline remains strong with over 60% of FY19 revenue market expectations and over £60m of business for the remainder of FY18 through to FY20 under contract



Chairman's Statement

For the six months ended 30 April 2018



During the first half of this financial year, Velocity made significant progress with revenue ahead by 25% as compared to the same period last year, despite having suffered from delays to contract awards. The gross margin was affected by unforeseen customer changes and the onboarding of multiple programmes across our UK sites. These matters have been addressed and the gross margin recovery is underway and our UK sites are also set to benefit from new contractual wins, increasing their throughput and efficiency.

Financial Highlights

The revenue outturn for the six months ended 30 April 2018 was £11.6m (H1 FY17: £9.3m) representing an increase of 25% and gross profit has decreased to £1.8m (H1 FY17: £1.9m) being a decrease of 9%, in the quieter half of our financial year. Loss before tax has increased to £987k (H1 FY17: £299k) and the EPS loss has reduced to 2.3p (H1 FY17 restated: 1.4p) as a result of continued investment.

Our net cash remains adequate at £4.2m and provides us with the resources we need to continue to implement our growth strategy.

Business Model

The Business Development Team alongside New Product Development have been appointed and a reorganisation to focus on both gross margin and revenue growth has been undertaken. In addition, our intention remains to open a European Research and Development Centre which will allow us to develop new products and services, and respond to more customer opportunities in less time.

Board and People

The Board remains committed to operating to high standards of corporate governance, as we believe that doing so will contribute to the delivery of long term shareholder value. The aerospace market also requires Velocity to operate on a Right First Time Every Time basis and hence the Company remains committed to governance, quality and transparency.

I would like to thank everyone for their continued hard work and commitment to Velocity Composites' success during the period. I very much look forward to working with the whole team as we continue to grow the business and within that, helping to provide more challenging and even more rewarding roles for everyone.

Lastly, on behalf of the whole Company, I would like to place on record our thanks for the significant and tireless contribution made by Peter Turner who has been with the Company for ten years, initially as Chairman and latterly Non-Executive Director. Peter's guiding hand has been invaluable to the three founders and with his experience,

continued...

Chairman's Statement (continued)

wisdom and challenge, Velocity has grown into a successful enterprise from the kernel of an idea. We wish Peter a long, restful and healthy retirement.

Outlook

We have excellent and committed staff, a high-quality client base, operate on growing aircraft platforms within the expanding aerospace composites market and with our clear focus on growth and with our supportive shareholder base, the Board remains positive about the Company's prospects.

Mark Mills

Chairman

25 June 2018



Chief Executive Officer's Report

For the six months ended 30 April 2018



The six months ended 30 April 2018 have seen continued growth during a period for the industry incorporating a significant degree of consolidation and corporate change, with the resultant delays in contract award experienced by the Company. We continue to successfully execute our growth strategy through delivering new contract wins and look to progress new manufacturing sites in Europe and further afield.

The first half of the year has seen growing demand for our services as the aerospace composites industry continues to look to “make more for less” and hence our customers look for new ways to reduce the cost of manufacture, both in the supply chain and their own manufacturing areas. The gross profit contribution in the period reflects the onboarding of new programmes and customer consumption experienced, with a recovering position in recent months, which was reflected in the revised market forecasts.

We continue to work through and respond to Request For Quotations (“RFQs”) from a range of large, global new and existing customers. Velocity has a clear strategy to capitalise on this growth opportunity and as such, the Board remains confident of meeting the market’s revised full year expectations, subject to customer demand fluctuations.

Strategy

At Velocity, we partner with our customers and use our industry knowledge, business processes and proprietary software to reduce the amount of raw material and process time needed by our customers to manufacture composite parts, whilst at the same time allowing our customers to outsource a significant area of non-value added activity from their business. This in turn makes the supply chain more efficient and less expensive for our customers within the aerospace composites industry and allows them to focus on their core business of manufacturing, testing and assembling composite structures. This subsequently enables aircraft manufacturers to reduce costs and increase production rates, allowing our customers to more readily meet the significant increases in aircraft build rates.

Since our IPO in May 2017 we have enhanced our market intelligence, identified and visited a number of key aerospace manufacturing clusters in EMEA where we believe we can replicate our business model. We have subsequently engaged with targeted launch customers in new territories and the next stage is to partner with them, win business and open facilities when tactically necessary.

continued...

Chief Executive Officer's Report (continued)

Operational review

Trading has been in line with revised market expectations and revenue has increased by 25% from the same period in FY17 as new programmes and our newest facility deliver revenue to the business.

Plans for new sites are being progressed and customers are being worked with closely to ensure that firstly, the Velocity service will reduce their costs and provide tangible benefits, and secondly, Velocity can still generate appropriate gross margin given its ability to use less material and labour to provide the requisite kits for its customers. At the same time, the Company needs to safeguard itself against currency fluctuations, the uncertainty surrounding Brexit, customer dependency and delays to aircraft programmes and therefore, is being careful in its selection of new sites, whilst remaining confident that its own growth ambitions can be achieved, profitably, in the long term.

Importantly, as the Company gathers momentum, the amount of contracted work continues to increase and now stands at over £60m. Whilst it is frustrating that the time horizon for contractual wins has been pushed outwards, Velocity's service continues to deliver cost, time and labour savings to our aerospace customers and has resulted in significant awards during the period and since the period end with highlights including:

- The award of Nadcap Special Process accreditation in March 2018 for Composites scope KSP (Kitting Service Provider), for demonstrating ongoing commitment to quality by satisfying customer requirements and industry specifications and which is significant as it opens up opportunities on aircraft types for which Velocity had no prior approval
- The award of a Long-Term Agreement to supply complex design consumable kits for the Boeing 737 Max programme from an existing customer which extends to 31 December 2021 with a contract value of £3m. These composite material kits will be produced in Velocity's Fareham site and used by Velocity's customer for the wing construction on the Boeing 737
- The award of a Long-Term Agreement to supply composite material kits to a new European Tier 1 engine manufacturer for Airbus A320 NEO and Boeing 737 MAX platforms. This agreement runs to 31 December 2020 with a contract value of up to \$6m

continued...

Chief Executive Officer's Report (continued)

Financial performance overview

- Revenue continued to strengthen, up 25% to £11.6m (H1 FY17: £9.3m) and gross profit delivered a contribution of £1.8m (H1 FY17: £1.9m).
- Operating loss of £919k (H1 FY17 restated: £208k) and loss before tax of £987k (H1 FY17 restated: £299k) were lower following the continued investment arising from the Company's listing, additional sites and growth strategy.
- Net cash of £4.2m (Oct 2017: £4.3m; both excluding finance lease obligations) remains adequate for our current growth plans.

Risk

In preparing these interim financial statements, management are required to make accounting assumptions and estimates. The assumptions and estimation methods are consistent with those applied to the Annual Report and financial statements for the year ended 31 October 2017. The principal risks and uncertainties that may have a material impact on activities and results of the Group remain materially unchanged from those described in the Annual Report.

For many businesses, the ongoing negotiations between the United Kingdom and European Union for its future relationship give cause for uncertainty and concern. Whilst the present uncertainty is a natural cause for concern, the aerospace sector is a global market which unlike many other sectors is largely tariff free. The UK is the second largest aerospace market in the world and works in global alliance on long term projects which last for many years. For Velocity, its strategy remains to be country agnostic and to co-locate in aerospace clusters alongside its customers, which helps to mitigate some of the risk that Brexit may otherwise bring to the Group.

Outlook

The customer and aircraft programme pipeline remains strong as customers look to reduce costs and simplify the supply chain. The message from the industry around waste / cost reduction continues to be reinforced by the primes looking to be able to deliver more for less in order to meet the order backlog and market dynamics.

As the customer base increases and the number of multi-site customers grow the Board sees further opportunity to meet customers' requirement wherever they operate and to offer intra-customer optimisation across all their sites wherever they are located.

We have had a solid start to the year and the Board remains confident of meeting the revised market forecasts for the full year, subject to customer demand fluctuations. We have the right team, strategy and offering in place to continue to strengthen our market leading position as supplier of total composite material kits to the aerospace sector and to create value for all of our shareholders and customers.

Jonathan Bridges

Chief Executive Officer
25 June 2018

Condensed consolidated statement of total comprehensive income

For the six months ended 30 April 2018



		Half year ended 30 April 2018 (unaudited)	Half year ended 30 April 2017 (restated - unaudited)	Year ended 31 October 2017 (audited)
	Note	£'000	£'000	£'000
Revenue	3	11,622	9,327	21,369
Cost of sales		(9,856)	(7,388)	(17,438)
Gross profit		1,766	1,939	3,931
Administrative expenses excluding exceptional costs		(2,694)	(1,894)	(3,481)
Exceptional administrative expenses		-	(264)	(931)
Other operating income		9	11	21
Operating loss		(919)	(208)	(460)
Finance expense		(68)	(91)	(167)
Loss before tax from continuing operations		(987)	(299)	(627)
Income tax income / (expense)		175	(10)	(73)
Loss for the period and total comprehensive loss		(812)	(309)	(700)
Losses per share - Basic (pence per share) from continuing operations	4	(2.3p)	(1.4p)	(2.5p)
Losses per share - Diluted (pence per share) from continuing operations	4	(2.3p)	(1.4p)	(2.5p)

The notes on pages 14 to 15 form part of this interim report.



Condensed consolidated statement of financial position

For the six months ended 30 April 2018

	As at 30 April 2018 (unaudited)	As at 30 April 2017 (restated - unaudited)	As at 31 October 2017 (audited)
Note	£'000	£'000	£'000
Non-current assets			
Intangible assets	355	-	317
Property, plant and equipment	1,123	1,059	1,083
Total non-current assets	1,478	1,059	1,400
Current assets			
Inventories	2,982	2,777	3,266
Trade and other receivables	4,781	3,854	6,148
Corporation tax	-	19	-
Cash and cash equivalents	5,754	504	5,414
Total current assets	13,517	7,154	14,828
Total assets	14,995	8,213	16,228
Current liabilities			
Trade and other payables	5,266	6,934	5,623
Grant income deferred	13	32	22
Corporation tax	-	-	35
Net obligations under finance leases	132	164	145
Total current liabilities	5,411	7,130	5,825
Non-current liabilities			
Deferred tax liabilities	-	97	106
Net obligations under finance leases	225	357	211
Total non-current liabilities	225	454	317
Total liabilities	5,636	7,584	6,142
Net assets	9,359	629	10,086
Equity attributable to equity holders of the company			
Share capital	5	89	58
Share premium		9,727	13
Share-based payments reserve		452	264
Retained earnings		(909)	294
Total equity		9,359	629
		10,086	10,086

The notes on pages 14 to 15 form part of this interim report.

The financial statements were approved and authorised for issue by the Board of Directors on 25 June 2018 and were signed on its behalf by

Alan Kershaw

Company Secretary Co No: 06389233

Condensed consolidated statement of changes in equity

For the six months ended 30 April 2018

Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Share-based payments Reserve £'000	Total equity £'000
As at 31 October 2016	-	-	603	-	603
Loss for the period (restated)	-	-	(309)	-	(309)
	-	-	294	-	294
Transactions with shareholders:					
Issue of ordinary share capital	58	13	-	-	71
Share-based payments (restated)	-	-	-	264	264
As at 30 April 2017	58	13	294	264	629
Loss for the period	-	-	(391)	-	(391)
	58	13	(97)	264	238
Transactions with shareholders:					
Issue of ordinary share capital	31	10,399	-	-	10,443
Share-based payments	-	-	-	103	103
Costs associated with issue of equity (from the AIM listing)	-	(685)	-	-	(685)
As at 31 October 2017	89	9,727	(97)	367	10,086
Loss for the period	-	-	(812)	-	(812)
	89	9,727	(909)	367	9,274
Transactions with shareholders:					
Share-based payments	-	-	-	85	85
As at 30 April 2018	89	9,727	(909)	452	9,359

The notes on pages 14 to 15 form part of this interim report.

Condensed consolidated statement of cash flows

For the six months ended 30 April 2018

	Half year ended 30 April 2018 (unaudited)	Half year ended 30 April 2017 (restated - unaudited)	Year ended 31 October 2017 (audited)
	£'000	£'000	£'000
Operating activities			
Loss for the period	(812)	(309)	(700)
Taxation	(175)	10	73
Profit on disposal of assets	-	(3)	(3)
Finance costs	68	91	167
Amortisation of intangible assets	44	-	80
Depreciation of property, plant and equipment	152	119	263
Share-based payments	84	264	367
Grant income amortisation	(9)	(11)	(21)
	(648)	161	226
Decrease/(Increase) in trade and other receivables	428	(912)	(3,206)
Decrease/(Increase) in inventories	284	(432)	(921)
Increase in trade and other payables	147	960	1,461
Cash generated from/(used in) operations	211	(223)	(2,440)
Income taxes received	34	-	-
Net cash inflow/(outflow) from operating activities	245	(223)	(2,440)
Investing activities			
Purchase of property, plant and equipment	(102)	(48)	(271)
Development expenditure capitalised	(82)	-	(397)
Proceeds from disposal of property, plant and equipment	-	4	4
Net cash used in investing activities	(184)	(44)	(664)
Financing activities			
Proceeds from issue of shares	-	71	10,501
Payment of share issue costs	-	-	(685)
Finance costs paid	(68)	(91)	(167)
Increase/(Decrease) in invoice discounting	436	787	(1,025)
Repayment of finance lease capital	(89)	(35)	(145)
Net cash generated from financing activities	279	732	8,479
Net increase in cash and cash equivalents	340	465	5,375
Cash and cash equivalents at beginning of period	5,414	39	39
Cash and cash equivalents at end of period	5,754	504	5,414

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.

In order to prepare for future expansion in the Asia region, the Company established a wholly owned subsidiary company, Velocity Composites Sendirian Berhad, which is domiciled in Malaysia. This subsidiary company has not traded at the reporting date, but 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 on pages 16 and 17. The financial information for the year ended 31 October 2017 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. The financial results for the period ended 30 April 2017 have been restated to reflect a share based payment charge relating to the first half of that year which was included in the full year accounts.

These interim financial statements will be posted to the Company's shareholders and are available from the Registered Office at AMS Technology Park, Billington Road, Burnley, Lancashire, BB11 5UB or from our 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 2018. This interim financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union, and has been prepared using consistent accounting policies as applied in the Company's full year accounts to 31 October 2017 and as expected to be applied in the full year accounts to 31 October 2018. They have therefore been prepared in compliance with the measurement and recognition criteria of IFRS as adopted by the European Union.

These financial statements have been prepared on a going concern basis and using the historical cost convention, as modified by the revaluation of certain items, 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).

Going concern

Having made reasonable enquiries, the Directors are of the opinion that the Company has sufficient resources to continue in operational existence for the foreseeable future and hence these financial statements have been prepared on a going concern basis. This assessment has been supported by the preparation and consideration of forecasts and projections through to 31 October 2020 to project the future growth of the Company, and flexing these forecasts through sensitivity analyses.

The forecasts include consideration of the cash position of the Company and the appropriate utilisation of the various facilities available for funding this growth. We have also discussed with our bankers and other financial advisers the resultant trading performance and they have indicated a strong desire to continue to support the funding of these growth activities.

Notes to Interim Report

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.

	Half year ended 30 April 2018 (unaudited) £'000	Half year ended 30 April 2017 (unaudited) £'000	Year ended 31 October 2017 (audited) £'000
Revenue	11,552	9,225	21,225
United Kingdom	70	102	144
Europe			
	<u>11,622</u>	<u>9,327</u>	<u>21,369</u>

One customer of the Group is responsible for over 10% 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. (Losses)/earnings per share

	Half year ended 30 April 2018 (unaudited) £	Half year ended 30 April 2017 (restated - unaudited) £	Year ended 31 October 2017 (audited) £
Loss for the period	(812,000)	(309,000)	(700,000)
Loss per share (pence per share) (basic and diluted)	(2.3p)	(1.4p)	(2.5p)
	Shares	Shares	Shares
Weighted average number of shares in issue	35,795,539	21,990,915	28,378,444
Share options	638,200	-	638,200
Weighted average number of shares (diluted)	<u>36,433,739</u>	<u>21,990,915</u>	<u>29,016,644</u>

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

5. Share capital of the Company

	Half year ended 30 April 2018 (unaudited) £	Half year ended 30 April 2017 (unaudited) £	Year ended 31 October 2017 (audited) £
Share capital issued and fully paid	89,489	58,812	89,489
Ordinary shares of £0.0025 each	<u>35,795,539</u>	<u>23,524,800</u>	<u>35,795,539</u>

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.

Independent Review Report



Independent Review Report to the Members of Velocity Composites Plc

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report of Velocity Composites PLC for the six months ended 30 April 2018 which comprises consolidated statement of total comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes. We have read the other information contained in the half-yearly financial report which comprises the Highlights, Chairman's Statement and Chief Executive Officer's Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Group, in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Group those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board 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 Ireland) 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.

Conclusion

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 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
25 June 2018

