



CARBON REVOLUTION LIMITED

(ASX: CBR)

ASX Announcement

23 April 2021

CARBON REVOLUTION Q3 FY21 QUARTERLY ACTIVITIES REPORT & APPENDIX 4C (UNAUDITED)

Geelong, Australia, 23 April 2021: Geelong-based advanced manufacturer Carbon Revolution Limited (ASX:CBR) (“Carbon Revolution”, “CBR” or the “Company”), whose lightweight carbon fibre wheels are used on some of the world’s best cars, is pleased to provide a business update for the quarter ended 31 March 2021 (Q3 FY21).

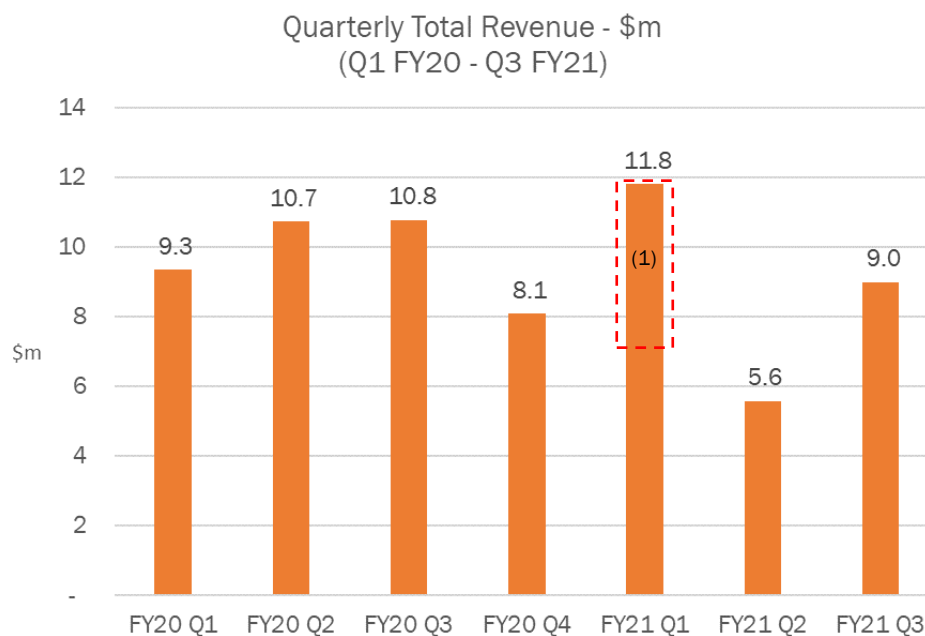
Q3 FY21 Highlights (unaudited)

- Carbon Revolution has decided to commence construction of Phase 1 of the first Mega-line. The Company will invest circa \$72m – consisting of circa \$47m in plant and equipment at its Geelong facility, with an additional circa \$8m investment in tooling and circa \$16m investment in program development
- The Phase 1 Mega-line investment is underpinned by formal agreements with Original Equipment Manufacturers (“OEMs”) to initiate detailed design and engineering relating to four new OEM programs. Following extensive collaboration with these customers, Carbon Revolution estimates related volumes for these programs at circa 75,000 wheels per annum. These programs are expected to enter production in CY2023 and CY2024
- To fund this expansion, the Company will undertake a fully underwritten \$95m equity raising, comprising of a circa \$53.5m Accelerated Non-Renounceable Entitlement Offer and circa \$41.6m Institutional Placement
- The business is rebounding from the impact of COVID-19, with quarterly revenue having increased by 61.2% compared to the previous quarter and wheel sales growth is expected to continue in Q4 FY21
- COGS per wheel reduced by \$856 or 21% from H1 FY21 to \$3,155. This improved COGS was predominantly driven by lower hours per wheel and increased production volumes
- Net cashflow from operating activities was positive in the quarter (including grants and reduction in work-in-progress)

Revenue

Following a difficult H1 FY21 which was significantly impacted by COVID-19, the Company increased revenue in the third quarter of the year. Quarterly revenue was \$9.0m, a 61.2% increase on Q2 FY21 and a 16.6% decrease from the previous corresponding period (Q3 FY20). The winter seasonality impact on a key customer program has now passed and sales orders have increased to normal levels.

Quarterly wheels sold were 3,134, an increase of 58.9% from Q2 FY21 and a decrease of 16.2% from Q3 FY20. Revenue from wheel sales was \$7.4m and there was \$1.6m in engineering services and tooling revenue for the quarter. Engineering services and tooling revenue will remain variable from quarter to quarter.



(1) Includes \$4.5m of wheels despatched via sea freight in Q4 FY20, recognised as revenue in Q1 FY21, as previously discussed

Program Lifecycle Summary

The Company has secured formal agreements to initiate detailed design and engineering relating to four new OEM programs expected to enter production in CY2023 and CY2024, a significant proportion of which are for electric vehicles. Related volumes are estimated at circa 75,000 wheels per annum. The expected volumes for these four new programs underpin the development of Phase 1 of the Mega-line and this project will move into the construction phase immediately. The Company will invest circa \$47m in plant and equipment at its Geelong facility, with an additional circa \$8m investment in tooling and circa \$16m in program development. A fully underwritten \$95m equity raise will be undertaken to fund this expansion, comprising of a circa \$53.5m Accelerated Non-Renounceable Entitlement Offer and circa \$41.6m Institutional Placement. Please refer to the accompanying “Mega-line Investment and Equity Raising” investor presentation and “\$95m Equity Raising to fund Phase 1 of the first Mega-line” announcement for further information.

Despite the continued COVID-19 impacts globally, Carbon Revolution continues to experience strong engagement from both existing and new customers on business development activities. OEM relationships have been enhanced through the recent appointment of Ron Collins to Carbon Revolution’s US business development team as Vice President North America. Ron was a senior

executive with Ford Motor Company and brings over 30 years of experience within the car industry including as Ford’s global head of chassis engineering.

During Q3 CBR achieved two significant milestones by providing the first prototype wheels for two customers’ programs in development, one being the Premium SUV program.

The table below summarises the existing program position.

Stage of Program Lifecycle (as at Q3 FY21)		Number of Programs
Awarded programs in production during Q3 FY21		3
Programs in development	Awarded	5
	Under detailed design and engineering agreement	5
Programs that have run out during FY21 (not in serial production)		3
Total		16
<i>Awarded programs planned to enter production in FY21</i>		<i>2</i>

Operational Progress

In Q3 FY21, the operational focus was on lifting production output and implementing and further improving the new fascia technology and reducing labour hours per wheel. Following a successful maintenance shutdown over the Christmas break, production steadily ramped up during the quarter in line with customer demand.

During the quarter, COGS per wheel reduced by 21% to \$3,155 as the operational benefits of the fascia process were realised and production volumes increased. The new fascia process and the lift in volume are having a positive impact on labour hours per wheel, reducing from 43 hours per wheel in H1 FY21 to 31 hours per wheel in Q3 FY21. Importantly, in March the business recorded days and weeks in the range of 22 to 27 average hours per wheel (across all wheels including low pressure and development wheels).

As previously discussed, the fascia technology dramatically improves the first-time aesthetic quality of the wheels and, in turn, drives a significant reduction in labour cost per wheel. The fascia technology is:

- in production for the current largest volume selling wheel;
- now developed for numerous new wheel programs that are awarded and in development; and
- expected to be rolled out across the remaining production SKUs over the coming months.

As a result of manufacturing efficiency initiatives and the introduction of new technologies such as fascia, for an increasing proportion of GT500 wheels, the labour hours are now down to 21 hours per wheel. The business is rapidly heading towards its near-term target of 17 hours per wheel for production wheels produced with fascia and on the high pressure moulding line.

Further industrialisation activities were focused on readying the Mega-line technology for sourcing. As discussed above, Carbon Revolution has decided to commence construction of Phase 1 of the first Mega-line. The Company will invest circa \$47m in plant and equipment at its Geelong facility, with an additional circa \$8m investment in tooling and circa \$16m in program development capex. The Mega-line will combine automated manufacturing processes with automated part flow and advanced automation which is expected to achieve step-changes to both capacity, and cost reductions. The Mega-line has been designed using in-house expertise, equipment partners, and deploying advanced 3D and simulation tools to reduce risk during the

design, construction and commissioning phases. Sourcing with key project partners will now commence at the completion of the associated Equity Raising.

The new enterprise resource planning system has now gone live at the time of this report. In addition, certain modules of the integrated human resource management system have been successfully implemented. These transformational activities enable the support, management and reporting functions to efficiently scale as production volumes are expected to increase over the coming years.

Cash Position

The Company's cash balance was \$13.3m at the end of Q3 FY21. Net cash outflow of \$2.1m for the quarter was in-line with the Company's expectations and included:

- Positive net cashflow from operating activities (including Government grants and a reduction in working capital) of \$1.2m compared to \$3.1m in Q2 FY21. While sales increased significantly, the Company retained its focus on managing inventory levels and product manufacturing costs which further reduced during the quarter. Operating cashflow included Government grants in Q3 FY21 of \$2.4m compared to \$6.8m in Q2 FY21.
- Net investing cashflow of \$3.2m. As announced previously, the investing cashflow was expected to be lower for the second half of FY21 compared to \$13.9m in the first half year. Investing activities cashflow consists primarily of investment in production assets and research and development (classified in the Appendix 4C as "other non-current assets"). The decision to commence Phase 1 of Mega-line will add further capital expenditure in Q4 FY21.
- Net cash outflow from financing activities of \$0.1m driven by a scheduled \$1.3m repayment of the Export Finance Australia (EFA) loan principal which was offset by \$1.6m from funds inflow from the new working capital facility.

During Q3 FY21 Carbon Revolution secured a new receivables financing facility of up to \$7.5m, to support near-term working capital growth requirements.

During the quarter, payments were made to related parties in the form of Directors Fees.

Outlook

With the decision to commence construction of Phase 1 of the first Mega-line, the Company is undertaking a significant expansion of its production capacity in Geelong, Australia. This additional capacity will be used to supply expected volumes relating to four new OEM programs for which formal agreements to initiate detailed design and engineering have been secured. These programs include a significant proportion of electric vehicles. Phase 1 of Mega-line is expected to:

- Increase production capacity from 80k to circa 155k wheels per annum representing an increase of circa 75k wheels per annum
- Reduce labour hours from circa 17¹ to <10 hours per wheel
- Pay back in approximately 2 years when fully utilised and provide a strong return on invested capital

To fund this, the Company will undertake a fully underwritten \$95m Equity Raising, comprising of a circa \$53.5m Accelerated Non-Renounceable Entitlement Offer and circa \$41.6m Institutional Placement. The Equity Raising together with additional working capital financing arrangements is

¹ Near-term target run rate for production wheels produced on the high pressure moulding line with fascia.

expected to provide sufficient funding for the Company to reach cash flow breakeven². This investment is a significant milestone for the Company and the next step towards industrialisation.

The Company expects the reduction of cost per wheel to continue progressively moving towards the business's near-term target of 17 hours per wheel for all high pressure production wheels with fascia. In addition, the Company expects:

- Continued release of COVID-19 related raw material safety stock buffer held in inventory, as global supply chains stabilise, with an almost \$2m benefit expected to be realised from reducing raw materials and consumables throughout the year.
- Ongoing reduction of wheel inventory due largely to the new fascia technology allowing moulded wheels to be finished. Overall wheel inventory is expected to reduce by approximately 1,000 wheels in the second half of FY21.

There are several FY21 one-off items that will impact on FY21 performance, they are:

- The business had anticipated that a proportion of Q4 FY21 revenue growth would be derived from one-off painted wheel sales (addressing pre fascia WIP) and through further increases in off-take of a key customer program. Due to COVID-19 impacts on our customers, these sales are now not expected within FY21 meaning wheel sales volume is likely to be in line with FY20
- Notwithstanding the potential future sales for painted wheel inventory, a non-cash provision of \$1.5m will be raised for the related work-in-progress inventory. Gross margin is not expected to be positive during H2 FY21 as a result of lower sales and the inventory provision
- SG&A will include a one-off cost of \$1.5m of legal and accounting fees related to an internal project

The Company continues to monitor the local and global impacts and risks related to COVID-19. There remain uncertainties arising from the ongoing impacts of COVID-19 and the automotive industry's response in the near-term.

ABOUT CARBON REVOLUTION

Carbon Revolution is an Australian technology company, which has successfully innovated, commercialised and industrialised the advanced manufacture of carbon fibre wheels for the global automotive industry. The Company has progressed from single prototypes to designing and manufacturing high-performing wheels for some of the fastest street cars and most prestigious brands in the world. Carbon Revolution is creating a significant and sustainable advanced technology business that supplies its lightweight wheel technology to automotive manufacturers around the world.

For more information, visit carbonrev.com

² This excludes funding any capital expenditure for Phase 2 of Mega-line (and associated program-specific tooling and development capex)

FORWARD-LOOKING STATEMENTS

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Carbon Revolution. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

Approved for release by the Board of Directors of Carbon Revolution Limited.

INVESTOR CONTACT

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INVESTOR BRIEFING

The accompanying investor and analyst briefing will be at 10.30am (AEST) on Friday, 23 April 2021.

To pre-register for this event please use the following link:

https://carbonrev.zoom.us/webinar/register/WN_rZdLuGvwTgO6FBLSf_rAlw

Registered participants will receive a calendar invite and meeting link (and dial in number if required) which is to be used when connecting.

A recording of the briefing will be made available on the Carbon Revolution Investor Centre website:

<https://investors.carbonrev.com/Investor-Centre/?page=results-and-presentations>

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Carbon Revolution Ltd

ABN

96 128 274 653

Quarter ended ("current quarter")

31-Mar-21

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	8,839	28,974
1.2 Payments for:		
(a) research and development	(748)	(2,451)
(b) product manufacturing and operating costs	(2,312)	(21,256)
(c) advertising and marketing	(46)	(177)
(d) leased assets	(78)	(239)
(e) staff costs	(4,128)	(11,406)
(f) administration and corporate costs	(2,442)	(4,349)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	67
1.5 Interest and other costs of finance paid	(310)	(1,270)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	2,423	11,320
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	1,205	(787)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses (see item 10)		
	(c) property, plant and equipment	(1,900)	(11,642)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	(1,326)	(5,446)
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(3,226)	(17,088)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities, or convertible debt securities	-	-
3.5	Proceeds from borrowings	1,550	14,550
3.6	Repayment of borrowings	(1,083)	(16,083)
3.7	Transaction costs related to loans and borrowings	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(560)	(1,126)
3.10	Net cash from / (used in) financing activities	(93)	(2,659)

4.	Net increase / (decrease) in cash and cash equivalents for the period	(2,114)	(20,534)
4.1	Cash and cash equivalents at beginning of period	15,408	33,861
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,205	(787)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3,226)	(17,088)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(93)	(2,659)
4.5	Effect of movement in exchange rates on cash held	(23)	(56)
4.6	Cash and cash equivalents at end of period	13,271	13,271

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	13,271	15,408
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	13,271	15,408

6. Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	228
6.2 Aggregate amount of payments to related parties and their associates included in item 2	0

Description & explanation of payments above:

Comprises Non-Executive and Executive Directors fees inclusive of superannuation for the quarter.
No other payments made to related parties or their associates.

7.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total Facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	15,417	15,417
7.2	Credit standby arrangements	-	-
7.3	Other – Financed Insurance Premiums	7,500	1,549
7.4	Total financing facilities	22,917	16,966
7.5	Unused financing facilities available at quarter end	5,951	-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well

Loan facilities totally \$22.9m comprises:

- Secured \$13m loan with Export Finance Australia at an interest rate of 5.95% per annum, interest repayable quarterly. Principal repayable over 3 years quarterly. The loan balance is \$11.9m as at 31 March 2021.
- Secured grant advance from the State of Victoria of \$3.5m. This contains a fixed facility fee of \$37,500 per month and is repayable 30 June 2021.
- The Company has a \$7.5m working capital financing facility in place. This facility is secured over the applicable trade receivables. As at 31 March 2021, the Company had drawn down upon \$1.5m of this facility.

There is also one lease agreements in place, being:

- Monthly rental of the production facility in Waurm Ponds (10 year lease with current monthly lease payments of \$69, 824)

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from/(used in) operating activities (item 1.9)	1,205
8.2	Cash and cash equivalents at quarter end (item 4.6)	13,721
8.3	Unused finance facilities available at quarter end	5,951
8.4	Total available funding (item 8.2 + item 8.3)	19,222
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	n/a
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
1.	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not? Not applicable	
2.	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful? Not applicable	
3.	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis? Not applicable	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 23 April 2021

Authorised by: The Board of Carbon Revolution Ltd

Notes

1. The quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose

additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here “By the Board”. If it has been authorised for release to the market by a committee of your Board of Directors, you can insert here “By the [name of the board committee - eg Audit and Risk Committee]”. If it has been authorised for release to the market by a disclosure committee, you can insert here “By the Disclosure Committee”
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with Recommendation 4.2 of the ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, the Board should have received a declaration from its CEO and CFO that in their opinion, the financial records of the entity have been properly maintained, that the report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.