

“Body armour eases pain in Ukraine”

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ASX-listed XTEK is providing crucial personal body armour plates and ballistic personal protection equipment for the front line in Ukraine.

In the last few weeks thousands of sets of body armour and helmets weighing over 25 tonnes have been dispatched from the company’s factory in Ohio.

XTEK chief executive Scott Basham will not say where three separate ballistics orders came from in the last month.

However, on March 7, XTEK told the market that an urgent \$2.75m delivery of specialist ballistic products had been made for an “undisclosed customer”.

That announcement came just eight days after Scott Morrison announced that Australia would spend \$70m to buy equipment to support Ukraine in repelling the Russian invasion.

Later in March XTEK revealed it had \$3.2m order for an urgent supply of specialist ballistic armour products from an “undisclosed international customer”. And on April 4 the company received another \$2.35m order, of which \$2.15m was for specialist ballistic armour. It also came from an undisclosed international customer, taking the total orders for the previous month to \$8.1m for the ballistics division.

With a market value of \$29m, XTEK – one of several smaller Australian defence businesses – is expecting strong growth in the new world order where national security is paramount.

Headquartered in Canberra with factories in Adelaide and Ohio, XTEK designs and produces advanced personal protection ballistic products and tech solutions including UAVs, sensors and software support. Its customers are militaries and law enforcement agencies around the world.

XTEK’s networking credentials are top drawer and would no doubt have been an important factor in expediting recent mandates. Former defence minister Christopher Pyne is on the board. XTEK’s new chairman Mark Stevens is a leading defence adviser and went through Duntroon in the same era as former chief of defence Angus Houston.

Another board member, Mark Smethurst, was the deputy commander of the Australian Special Forces Command. And Basham himself is a former army officer and Duntroon graduate in the class of 1992, which produced half a dozen two star generals and a swag of other red tab officers.

Basham says the mission to supply Ukraine is especially compelling because the company’s head of business development, Justin Suwart, and former board member and shareholder Ivan Slavich both have Ukrainian roots and some family still in country.

The body armour heading to the Ukraine protects the user from artillery and grenade fragmentation and hand guns. But in Adelaide XTEK has developed patented technology which takes ballistic protection to the next level. In laymen’s terms that means AK-47 protection.

These world-leading products have been produced in Adelaide for both the military and SWAT teams in the civilian environment. Production is ramping up.

The process involves pressurised hot oil that melts the material at a far greater intensity than mechanical pressure. The result is an ultralight but very rigid product that is very hard to penetrate, used for helmets and protective armour.

During March there were a total of \$5.1m in purchase orders for specialist hardware and software products, including drones due for delivery from the fourth quarter of this year.

Underpinning the growth story for XTEK is its US advanced manufacturing business HighCom Armor Solutions, acquired in 2019. HighCom Armour has become the company's global armour brand. "You have to manufacture in the US to sell to the US military," says Basham.

"Our HighCom business is very focused on law enforcement. We are very well regarded in the law enforcement market and government agencies."

XTEK is now looking to US defence for growth, especially for its leading-edge technology from Adelaide which has already garnered enough interest to attract R&D funding from the US military over the years.

The strong order flow for XTEK follows a tough period when the company was forced into a restructure to turn around the business. Over the last year shares fell over 70 per cent to a low of 17c in late February, before bouncing back in the last six weeks to 28c.

"We were trying to be lots of other things and not doing any of them well," says Basham, who joined the company just over a year ago as a vice-president from another small listed business that had needed a turnaround. After a review, he became chief executive in September.

"We had to do a capital raise and a placement offer and I've gone through a period of right-sizing the business to get us back to where we should be. We'd become a little complacent and distracted, I think," he says.

Basham admits the half-year results he delivered in February made for confronting reading: a loss of \$6.8m, compared with the \$3.5m loss from the first half of 2021, but which included a non-cash write-off of \$2.5m for a rapid Covid-19 testing machine. "We are a defence industry company. What are we doing with Covid machines?" he asks.

Much of the work has been on cost control and refocusing the business to be a defence industry and security company. There were staff cuts of 45 per cent at the Australian factory and about a third of employees at the US factory. Basham expects to see cost savings of about \$3m a year from the restructure, of which about \$1.5m is expected to flow through to the bottom line in the second half. "On staff, we are now back from 60 to 40 before March, back to 80 in the US, working around the clock to fill orders and our Adelaide factory is humming along nicely and right-sized," he says.

Basham says since February XTEK has worked its way back from the half-year loss and a full-year result in the black is not out of the question. "I can see a bridge to break-even or very close and I can also see potential to be profitable.

"A lot of dependencies in that of course: we have to deliver on the expectations in front of us, but it's not beyond the realms of possibility. That is because the team is very aligned on what it is we do and brutally clear on what it is we don't do."

With gross margins of 27 per cent at the half-year results, XTEK looks ready to vie for a share of the forecast \$270bn ADF spend over the next decade.

For further information regarding this article, please contact Scott on the details below.

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About XTEK Limited

XTEK Limited provides high-quality products to deliver tailored solutions to the government, law enforcement, military, space and commercial sectors. XTEK is focused on developing and commercialising its proprietary technologies by leveraging its established distribution network. These technologies include XTclave™ produced ballistic products and advanced composite solutions, and XTatlas™ real time contextual video, which provide unique solutions for western military forces and other government agencies. In addition, the supply and maintenance of Small Unmanned Aerial Systems (SUAS) remains a focus for XTEK. For more information visit the XTEK website at www.xtek.net