

XTEK Ready to Provide Armour to an Edgy World, CEO Says

Scott Basham, the new CEO of XTEK, tells Alan Kohler than a shakeout of operations he oversaw after taking over means that the maker of body armour and provider of drones is well-placed to carve out sales among nervous European countries.

By [Alan Kohler](#) · 7 Jul 2022

Alan Kohler here and I'm talking to Scott Basham who is the new CEO of XTEK, the Canberra-based maker of Kevlar vests and helmets, drones – it doesn't make the drones, it sells them to the defence industries. I spoke to Phillippe Odouard who was the previous CEO a couple of years ago and he got fired last year and replaced by Scott Basham. The share price fell from 60 cents down to 16 cents in February this year, Scott Basham has turned the place around, the share price is now 41 cents and he is starting to make some serious sales. It sounds like the place was a bit of a mess when he took over, too much cost, he's cut the staff levels enormously, got a lot of cost out.

They're still burning cash but Scott reckons not much and they're starting to get some orders in so for those who bought after our last interview, well it looks like things are heading up and the share price is on the improve and they're starting to make some decent orders with a lot of them in Europe because of what's going on in Ukraine. I think, in fact, they sold a lot of armour to Ukraine itself but they're also starting to sell to Poland, Finland, Sweden, everyone else is worried about Russia so it could be a bit of a happy hunting ground for vendors of armour into Europe of which XTEK is one.

Here is Scott Basham who is the CEO of XTEK.



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Scott, I always start these interviews talking about cash. The last cash flow report I've seen from XTEK is half year to 31 December which showed operating cash burn of 8 million for the half year. Are you still burning cash now?

No, Alan, as you know I have just been appointed 11 months ago as a CEO and through the period of the first half we implemented a lot of restructuring in the business. We reduced the headcount here outside of the US by 45 per cent and within the US and our US subsidiary by 33 per cent so we've cut a lot of cost and inefficiency and underperformance and waste out of the business so our cash burn is much reduced and as a result of that we've been in great fighting shape to launch on some opportunities that have come down in the second half.

When you say your cash burn is reduced are you still burning cash or not?

No, nothing like we were, we've cut that way back and it's a much more sustainable position. I think at the end of the half we had 3.5 million, I want to say, cash in bank and...

4.5.

4.5, there you go. We have made significant improvements on what our spend is, we've tightened up right across the board and we've got rid of a whole lot of moonshine activities that the business had previously been

investing in which were bottomless pits and we now are very clear about what we do and don't do in the business.

It sounds like the business was in a bit of a mess when you took over 11 months ago.

Your words not mine, but certainly the board implemented a strategic review and on the back end of that there was some management changes. I was appointed initially as the interim CEO and at the end of July, start of August.

Were you already in the business then?

I'd been in the business for five months before that, February last year I came in to run the technology side of the business, the drones and the robots and the artificial intelligence software side of the business. The board implemented a strategic review, a number of recommendations came out of that all of which were subsequently implemented by me and we've really sharpened up the business. For a long time XTEK had tried to be all things to all people, its key focus had been on sort of value-added reseller activity, trying to sell whatever was hot to defence and law enforcement, and all the rest of it.

On the back end of that review I very much sharpened our focus to essentially being a defence focussed business. I reshaped the business into two clear operating divisions so we have our technology division which as I said is the drones and the robots-focussed arm.

You've still kept that, have you?

We keep that but very focussed activity, we've cut away many of the representation agreements that we had just to focus on some specific things that Australia Defence Force...

What things?

UAVs, we're an incumbent supplier to the Department of Defence, to the ADF.

A UAV is a drone, isn't it?

It's a drone, that's right. The small UAVs that every rifle company has, they can fly that around for a two-kilometre radius in 20 minutes and of course everybody is seeing the benefit and the impact of these sorts of things in

everybody is seeing the benefits and the impact of these sorts of things in recent days and weeks and months in the Ukraine and other places. We're an incumbent supplier, we're a prime supplier to defence for that particular category. We also have been a long-standing supplier to defence for the bomb disposal robots that their engineers have and so we're actually waiting on a tender outcome for a replacement fleet of those that are imminent which is pretty exciting for us, we think we're in a very good spot for that.

Then the other part of the business is our ballistic armour business based on our US subsidiary, wholly-owned subsidiary called HighCom Armour and that's all about body armour, helmets and composite structures and that

business in particular in the last four months or so has just been going gangbusters but we've made a lot of changes across the board so we have some unique capabilities in that division. We have two operating facilities, manufacturing facilities, one in Adelaide where we make some unique high performance ultra-lightweight, ultra-thin, helmets and body armour.

What you might not know is that the helmet that most soldiers wear, pretty much every soldier in the world wears, is only rated to stop handgun bullets, 9mm, 44 Magnum and some fragmentation from grenades and artillery shells, it doesn't actually stop rifle bullets. The technique and the technology that we have that's patented to us in our Adelaide factory actually allows us to compress all those Kevlar and carbon fibre type materials, very hard, hard as steel effectively, to stop AK47 bullets and that type of projectile so it's unique in the world. We're very excited about ramping up our production in Adelaide for that capability.

Pretty pointless having armour that doesn't stop rifle bullets, goodness me.

You would think, right? So the great dilemma or dichotomy in the body armour world is we make body armour plates that go in the front and back in a vest on the soldier, they can stop great big AK47 rounds and bigger rounds than that but the helmet doesn't. Of course, what's the thing that the soldier is going to put his trust in when he sticks his head up over the parapet, it's the helmet. We have great expectations about the potential uptake for this technology we make in Adelaide and then more broadly with the technology that we create out of Columbus Ohio where our HighCom entity is based. That's a value range, it's the US military and the US law enforcement market is

the biggest in the world, there's something like 19,000 various agencies and that's from the DEA and the FBI all the way through to the dogcatcher and the country sheriff and the highway patrol and whoever else in every town, city and village and country and state, so on and so forth.

That market is a very mature market, we're very well positioned with the products we make in the US there and which we've been exporting internationally to Eastern Europe.

Are you making stuff in Ohio as well as in Adelaide?

Absolutely.

What are you making in Ohio?

We make what they call Level 4 body armour, body armour plates and helmets over there. We make the handgun level helmets over there as well which is what the world wants right now because that's what's needed. Our Level 4 body armour stops a type of round called a 30-06, a 30 calibre round armour piercing and that's certified to the National Institute of Justice, the NIJ standard, which standards are very important in the body armour game as you'd expect. We make that, we make something in the order of 2,000 plates every day and so you have a body armour plate on the front and one on the back and so effectively we can make 1,000 sets of body armour every day and some of the big orders that we've taken in recent times have been many tens of thousands and they're in great demand in Europe right now.

What's your unique selling proposition? Are you cheaper or better, or what? To what extent have you got patents?

We're a full service solution provider so we provide a value range and we provide a very high end high performance range as well, all compliant with all of the quality standards that are mandatory and necessary in our industry but the unique thing apart from having massively ramped up production, so 2,000 plates a day, 10,000 sets every week, is a significant capability that we can supply into the market right now and many of those organisations, agencies, government departments and the like in Eastern Europe want to deal with players who have that capacity to deliver rapidly and at scale and

so we certainly can do that.

Our other unique selling point is this capability that we have in Adelaide, it's a particular type of hydroclave, so if you think of a great big pressure cooker full of hot oil that goes up to 200 degrees Celsius and pressure is applied at 300 bar and if you're a PADI diver and you've dived on the Barrier Reef you know that one atmosphere is 10 metres, and that's the same as a level of pressure, 10 metres of pressure is 1 bar. So 300 bar of pressure is the same as 3,000 metres of pressure and that allows us to melt and squeeze and shape those Kevlar and carbon fibre type materials into unique curvatures

and complex geometries and shapes and so that's why we can create these helmets that are, as I say, as strong as steel type things that allow us to defeat the AK47 bullet and things of that nature.

You must be competing against some pretty big and well-resourced businesses.

Yeah, very true. We have been in the past – I suppose you'd call us a tier two or even a tier three player in the body armour market, and a lot of the work that we'd done in our America business was white-labelling for other providers so putting somebody's sticker on our box and that was the way that that business had run for a long time, selling bumper bars to Holden type thing in that mindset. This last six months or four months in particular had seen us do a lot of deals direct into Europe which is a new market for our American business and a lot of that is down – a great deal of that is down to the new sales team that we've brought in to look at our international business opportunities.

Who are you selling it to in Europe?

We're selling it to Ministries of Defence and other agencies of that nature in particular countries that are in a pretty tense environment right now.

You've had a string of announcements about orders, can you sum up for us what you've done in the last six months in terms of orders?

In the last six months, and in fact since the 1st of March, we've booked just shy of \$A65 million dollars worth of body armour orders and just over \$13 million of drone and robot orders and the great thing about those body

armour orders is that they're for us quite high margin orders so they're anywhere from as low as 35 per cent gross margin through to 50 per cent and 60 per cent gross margin, of course it depends on the type of product and the size of the order and so on and so forth.

How many of those orders involve payment upfront?

So all bar one are normal transactions, 30 days or whatever they might be, but the big order that we just took back on the 27th of May was for \$US33 million which was 100 per cent paid upfront and so that's been a fantastic tonic for our business because it means that we have all the working capital

we need. We've already sourced great terms with our raw material suppliers to ensure supply with that and so having that working capital in our bank before we shipped a single product has just been fantastic. In that particular order, \$A46.8 million, \$US33 million as it was when we booked it, we've already delivered one third of that order so \$US11 million by the end of the financial year last week which is fantastic.

We expect to deliver the remaining two thirds of that order through the first quarter of this new financial year so we've got production ramped up, 2,000 plates a day, 500 helmets a day through until September and our sales team are rapidly engaged with many other government departments and agencies and so on on new orders and other potential opportunities that are coming through. As I said before they're very interested in our ability to supply at scale and at quality, they're key things for us in our delivery so far.

Who gave you that money, the \$US33 million, and how come they paid upfront?

You'll understand that there's a level of confidentiality around some of these things but certainly the reason that the payment was made upfront was that there was no guarantee necessarily that the people we were dealing with might be around in the fulness of time.

It wasn't the government?

It was the government but whether or not their accounts payable people would still be the same accounts payable people in two months or three months' time, who knows what's happening in Europe right now.

It's Ukraine.

Your words.

I see, right. You made them pay upfront, whoever it was.

Indeed.

Right, that's not something you can see happening all the time, I mean most of the time if you're selling armour to Germany or France you're going to send them an invoice, right?

Right, normal commercial terms and so we've had, as I said, 64 and a bit million in orders since the first of March, the other sort of 20 million or so that we booked before that big order were under normal commercial terms with those agencies and groups and departments and they paid them in the normal fashion but that particular order given the sensitivity of where it was and what was happening, and so on and so forth, required – and it's such a huge order, so part of the need to ensure we had working capital to source the goods and pay for the goods and deliver on time demanded that sort of negotiation which we got and that cash is sitting in our bank nicely.

How much of the 64 or 65 million in orders in the last four or so months are from the US? Is it all Europe?

All those deals have been manufactured out of the US because they're value product, if you like, so these are body armour plates that are \$US240 a plate or thereabouts and helmets are \$500 there or thereabouts, \$US500 apiece. There are many tens of thousands of items that we've manufactured and shipped and of course not all of those deals – there was a 9.5 million dollar deal that we shipped recently just, on the 14th of June in fact, into the Asia Pacific region for a particular customer as well. It's not all sugar rush, sugar hits out of Ukraine and all the rest of it, or other places. There is a significant period of ramping up that's happening in all of the countries in Eastern Europe and Europe more broadly where countries who have donated product to Europe are now looking to resupply themselves.

There's also a lot of catch up on – they've all come out of the Middle East and other places, their gear is all yellow and now they need it in green because they're fighting in woodlands not in the desert, and you would have

seen in recent days Poland and other places like it are now ramping up their standing armies, Poland I think is from 150 to 450,000 soldiers which is a significant uplift. Then you have other places like Finland who have introduced a form of national service for nine months for 18 to – I think its 35 year olds.

Are they all wearing armour?

Everybody who starts in the military is an infantry soldier first and foremost so they need a helmet and a set of body armour so before they go off and drive a tank or fly a drone or cook the meals, whatever they do, count the blankets – they're a soldier, an infantry first and foremost. Everybody typically needs a set of body armour and a helmet before they do anything.

Tell us how the pitch takes place, when you go into somewhere like Finland or Poland and you're pitching your armour how many people are you against and how does the pitch go?

That's a really interesting question. Three or four months ago the key end users of this stuff were screaming for anything from anywhere and they got let down, I have to say, by a lot of substandard equipment that was purchased or sold to them through agents and third parties and others, sometimes not much more than wet newspaper between two sheets of carbon fibre which stopped nothing. The procurement process has been typically through procurement agencies of government departments for and on behalf of militaries and the like and so as I said our new sales team have been very good at finding the right people to talk to and of course three or four months ago the urgency of this meant that we got a very quick entry into discussions with those that were buying products so we are fortunate to find the right channels to progress.

More lately the period of this fast super rapid procurement with little structure has changed, now we're seeing a more structured procurement, limited tendering, limited proposal generation but the big thing in this space is your qualifications and your certifications of your product, your quality standards and all of that. Particular countries have been bitten pretty hard and let down by absolute scoundrels coming out of East Asia and other places just trying to sell them anything from anywhere. The pitch per se is about having credentials to get you through the door that allow you to have

those conversations and then typically supplying some sample products with all the test results and all the rest of it.

Who are you up against?

Every man and their dog who sells body armour, and very many who don't or have never sold body armour but now think that that's the game to be in have tried to get in there. Of course there's a lot of charlatans and substandard equipment that was sold or purchased and those people in those agencies have learnt from their mistakes and so they've certainly firmed up their processes very much. This is where we've delivered five key deals in the last four months and having some runs on the board, we had some early orders delivered at the start of March and then again in April that were real testers and they were say 5,000 sets of body armour or something of that nature and so it wasn't a big order but it was enough to show that you could deliver on time, on target with a quality product and do all the things that you say you would do.

On the back of those proof points we then managed to negotiate that very large \$US33 million deal.

Vladimir Putin has made sure that everyone in Europe presumably wants to buy armour and helmets now, so how big do you think the market could be?

A rough rule of thumb, Alan, is that a set of body armour and helmet costs around about \$US1,100, round figures, 1,100. If you look at Poland adding another 300,000 soldiers, whatever that number is it's enormous, and you look at Finland adding 100,000 soldiers, and Sweden, Denmark, Germany, France and everybody else, they're all ramping up their refitting their existing standing army, they're fitting out their reserves and then they're looking in some cases at their national service conscripts and others. This will be billions of dollars.

There's no way you're going to fill those orders out of Columbus, Ohio, are you?

Our normal production before the 1st of March was four days a week, one ten-hour shift with a Friday left over for some catch up or maintenance or whatever it might be. We now run two shifts five days a week in Columbus,

two ten hour shifts five days a week. We have a little bit more capacity there but we're actually looking at our production capability there as a sustainable footing so if we went to 24/7 we'd need extra HR people and extra whatever and so on and so forth. What we've got right now in Columbus is very sustainable for us, we've sourced our logistics teams, supply chain team, have sourced these raw materials and guaranteed supply, and we're actually getting 30 per cent to 40 per cent of some of our core suppliers' product to us only so that's great that we've got that guaranteed supplier, we've got big orders in there so we've got better terms and some discounting albeit that prices have gone up.

The other thing about that is we're also locking out some of our competitors in the space who haven't been able to negotiate those things, who weren't forward leaning in their efforts and at the start of every year we put in blanket orders on our key suppliers for the Kevlar carbon fibre type materials and the ceramic plates and other things that go into our body armour, and we say we're going to order 100,000 across the course of the year from you. Because we do that, we've been doing this and our HighCom business has been going around for 25 years and we're very well known, we've been able to pull forward some of those volumes that had been previously announced or pulled out with those suppliers. Then we've put in follow on orders very promptly through March and April so that we guarantee that supply.

We're in a fantastic position, we've got a really well drilled team of logistics folks in our armour business and it's a very exciting time.

What did you say your gross margin was again?

Our gross margin varies but on some orders it's been 50 per cent and 60 per cent on some of these bigger orders, it's probably more in the order of 35 per cent to 40 per cent and again it depends on what particular product and the like, I mean we still have to be competitive in our commercial negotiations but previously we had been far less than that and so these have been really great orders for our business and the factors I said before, we got cash upfront as well, it takes out of a whole risk to give us that working capital to ensure that we can supply those big orders.

You don't make your drones, do you?

We represent some of the world leading manufacturers of drones and we

provide that, we contract with defence here in Australia to supply them and the OEM in the States contracts to us.

What margin do you get on the drones?

The technology margins are far skinnier in comparison to the IP that we own on the ballistics side, typically we're around about 15 per cent gross margin on the OEM value added reseller business and where we typically make our margins better is on the manpower, maintenance, support, integration

training type aspects, the Australian industry content piece on those deals. Those gross margins are around 67 per cent on the manpower and labour side and the support side.

Very good. We'll have to leave it there, Scott, it's been great talking to you, thanks.

Any time, Alan, thanks for talking.

That was Scott Basham, the CEO of XTEK.

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