

## AUSTRALIAN DEFENCE COMPANY, XTEK, ACQUIRES AMERICAN BALLISTIC ARMOUR COMPANY

18<sup>th</sup> July 2019



### Key Highlights:

- XTEK to acquire HighCom, a successful and profitable provider of body armour and personal protective equipment in the US market
- HighCom generated CY2018 revenue of A\$10.5m, gross margin of ~40% and EBITDA of A\$1.4m and the acquisition is expected to be immediately earnings accretive in FY20 (before synergies)

- **This strategic acquisition enhances XTEK’s focus on proprietary products by accelerating XTclave™ commercialisation and expands distribution network into the largest defence market globally**
- **XTEK has successfully raised A\$2.7m via an oversubscribed placement at A\$0.45 per share with SPP to raise up to A\$1.0m will follow the placement**
- **Proceeds of the placement and SPP will fund the acquisition and other growth opportunities**

**XTEK Limited (ASX: XTE) (“XTEK” or “the Company”)**, a leading Australian defence company focused on tactical and protective solutions, is pleased to announce today that it has entered into a binding agreement to acquire US market provider of body armour and personal protective equipment, **HighCom Armor Solutions, Inc (“HighCom”)**.

HighCom is a provider of body armour and personal protective equipment based in Columbus, Ohio, US. HighCom designs, develops, tests, manufactures and distributes hard and soft armour products and high quality ballistic and personal protective gear. All HighCom products are certified by the US Department of Justice’s National Institute of Justice, which represents the highest compliance standard in the industry.

## **Commenting on XTEK’s milestone defence acquisition announcement Minister for Defence Industry, the Hon Melissa Price MP, said:**

“This is a great opportunity for an Australian business to further expand and I congratulate XTEK on their announcement.

“As the Prime Minister has said, if you have a go, you’ll get a go – and our success in Australia’s defence industry is a result of companies like XTEK who are taking every opportunity to have a go.”

The acquisition of HighCom supports XTEK’s strategy to commercialise its high-performance ballistic protection products, by accelerating XTclave™ based products entry into key target markets in the US. HighCom’s existing personal protective equipment expands XTEK’s proprietary product portfolio by growing its high margin ballistic armour product range, which is expected to enhance XTEK’s earnings, cash flow and profitability.

Through the acquisition, XTEK will gain direct access to HighCom’s well established US distribution network and existing manufacturing capability necessary to address the US military market. This allows immediate and de-risked market penetration into the US, which represents the largest and most valuable market for XTclave™ products and provides the opportunity to expand the customer base and sales channels with a broader product offering.

## **Philippe Odouard, XTEK Managing Director, said:**

“We thank Minister Price for her support of this transformational transaction, which represents a key milestone in XTEK’s evolution to becoming a leading ballistic armour player globally.

“XTEK is now in a strong position to accelerate the commercialisation of its proprietary products by combining XTclave™ technology and existing manufacturing capabilities with an established and growing distribution network in the US, the largest defence market globally.

“We believe the acquisition of HighCom presents significant growth opportunities, with the potential to be the ballistic armour and personal protective equipment supplier of choice and to leverage this success and momentum into other key target markets globally.”

HighCom has an established US network of distributors, original equipment manufacturers (OEM) and sales agents who supply major government and law enforcement agencies. HighCom, as a US General Services Administration (GSA) approved manufacturer, has the opportunity to grow direct distribution channels with the US Government including military, federal and municipal law enforcement agencies.

In CY2018, HighCom generated revenue of A\$10.5m (CY2017: A\$8.6m), gross profit of A\$4.2m (CY2017: A\$3.0m), gross margins of ~40% (CY2017: ~35%), EBITDA of A\$1.4m (CY2017: A\$0.4m) and net income of A\$1.3m (CY2017: A\$0.1m).

**James Black, Director of HighCom Global Security Inc. (HighCom vendor), commented:**

“This transaction is highly strategic and allows the combined entity to grow its customer base, deliver high quality and proprietary products, expand geographic reach and accelerate entrance into new markets.

“More importantly, the deal structure enables shareholders of both XTEK and HighCom the opportunity to participate in the upside of a leading ballistic armour manufacturer.

“We are confident that the complementary combination will result in significant benefits to all shareholders, with the opportunity for a potential re-rating for the expanded shareholder base from enhanced presence, earnings and capital markets profile.”

The acquisition of HighCom represents a transaction EV / EBITDA multiple of 2.6x CY2018 EBITDA (pre future earnout payment). The acquisition is expected to be immediately value and earnings accretive in FY20 (before synergies and amortisation). Key growth opportunities include cross-selling opportunities, utilising existing goodwill and referrals to drive growth in new clients and product sales and leverage US commercialisation into other markets.

The Company has successfully completed a A\$2.7m placement to fund the acquisition of HighCom and XTEK's expansion into the US and commercialisation of its proprietary technologies in key markets. A share purchase plan (SPP) for XTEK shareholders to raise up to approximately A\$1.0m at A\$0.45 per share will follow after the placement to assist in the capital raising.

The placement was oversubscribed, with strong demand from existing shareholders and new sophisticated investors. The placement comprises the issue of ~6.0 million XTEK shares, at an offer price of A\$0.45 per share

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