

Get protected

It is likely Ukraine has catalysed a reset in defence thinking leading to a step change in spending that will extend well beyond the current conflict. XTEK has received \$8.1m in Ukraine-related orders over the past three months with the possibility of similar orders in coming months. A recently revitalised procurement strategy by Australian Government Defence is likely to add further support for Australian suppliers. New management has provided a corporate reset and sharpened strategy, coinciding with the release of new technology (XTclave) for ballistic protection products.

We value XTEK at A\$0.52 per share.

Manufacturing and agency sales

More than half of XTEK's revenue comes from the body armour and helmet sales of its US-based HighCom subsidiary. HighCom's distribution networks are expected to provide the proprietary XTclave products a channel to market. This technology enables the creation of low profile, light-weight armour ideal for complex shapes such as female body armour and helmets. XTEK also has sole-agency distribution agreements in Australia for supply and maintenance of unmanned aerial and ground vehicles used by Defence.

The reset

Following on-going losses in the Group, a new CEO, Scott Basham, was appointed July 2021. Scott undertook a strategic review of the business, resulting in elimination of some business lines, a 30% cut in overheads, and a capital raising to restore the balance sheet. Management has been revitalised with six out of the CEO's nine direct reports having been appointed by Scott.

Australian content in Defence spending

The dramatic shift in Australian Defence spending strategy, with a strong focus on building Australian capability and ensuring Australian content is expected to support medium and long-term demand for XTEK's products. This complements the expected strong near-term sales to Defence.

Forecasts and valuation

Recently announced sales of ballistics products to eastern European customers are driving strong demand. Our forecasts for FY23 and beyond assume some abatement in current demand but reflects risk weighted estimates of current bids, and growth in Ballistics at well above industry forecasts. We value XTEK at A\$0.52 per share with upside from continuing eastern European demand. Refer to page 21 for an analysis of the risks associated with this valuation.



XTEK provides front-line equipment for defence and law enforcement personnel. It manufactures body armour and helmets and has exclusive agency agreements for distribution of unmanned aerial and ground vehicles from which it has also built a service and support business. XTEK has also developed an innovative technology (XTclave) for use in body armour and helmets that it is now commercialising. It has operations in Australia and the US with most sales in those regions as well as sales globally.

<https://www.xtek.net/>

Stock	XTE.ASX
Price	A\$0.31
Market cap	A\$31m
Valuation	A\$0.52

Next News

Next 3 months: More Eastern European sales

Next 6 months: Defence tender wins

Aug-22: FY22 Result

XTEK Share Price (A\$)



Source: FactSet

Andrew Johnston
Andrew.Johnston@mstaccess.com.au

Ben Kairaitis
Ben.Kairaitis@mstaccess.com

Figure 1 Financial summary

Year End 30 June	2020A	2021A	2022E	2023E	2024E	
Core PE	x	53.0x	nm	55.8x	6.2x	5.6x
EV/EBITA*	x	17.3x	nm	25.7x	3.2x	2.6x
EV/EBITDA	x	11.3x	nm	11.8x	2.7x	2.2x
Div yield	%	0.0%	0.0%	0.0%	6.5%	7.1%
FCF Yield	%	2.0%	nm	2.1%	16.1%	17.7%

Profit & Loss Statement						Stock information					
\$m	2020A	2021A	2022E	2023E	2024E	Share Price (\$)					
Revenue	42.7	28.3	26.6	31.5	34.8	\$0.31	Market capitalisation (SOI) (\$m)				
Change pcp	%	-33.7%	-6.0%	18.2%	10.4%	31.2	Valuation (\$)				
Gross Profit	8.6	8.1	12.8	15.8	17.0	100.6	Shares on issue (Basic) (m)				
Gross margin	%	20.2%	28.7%	48.2%	50.2%	100.6	Shares on issue (diluted) (m)				
EBITDA	0.8	-3.0	2.2	8.1	8.8	100.6					
EBITDA margin	%	1.9%	-10.7%	8.3%	25.7%	100.6					
D&A		-0.8	-1.1	-1.2	-1.2	100.6					
Net interest expense		-0.2	-0.3	-0.3	-0.2	100.6					
Profit Before Tax	-0.1	-4.4	0.7	6.7	7.4	100.6					
Tax and adjustments		0.4	0.5	-0.2	-1.7	100.6					
NPAT (underlying)	0.3	-4.0	0.6	5.0	5.5	100.6					
Significant, discontinued et.al		0.0	0.0	-2.8	0.0	100.6					
NPAT (reported)		0.3	-4.0	-2.3	5.0	100.6					

Per Share Data						Performance ratios					
	2020A	2021A	2022E	2023E	2024E	ROE (%)	2021A	2022E	2023E	2024E	
Ave. diluted shares outstanding m	52	69	101	101	101	-18.6%	-18.6%	-10.2%	18.5%	18.1%	
Underlying EPS	0.6	-5.8	0.6	5.0	5.5	ROIC (%)	-24.2%	3.6%	19.2%	20.3%	
growth pcp	%	42%	-1083%	-110%	800%	10%	Net debt/(Net debt + E)				
Reported EPS	cps	0.6	-5.8	-2.2	5.0	5.5	nm nm nm nm				
growth pcp	%	42%	-1083%	-61%	-324%	10%	Interest cover (EBITDA)				
DPS	cps	0.0	0.0	0.0	2.0	2.2	nm nm nm nm				
Payout (on underlying)	%	0%	0%	0%	40%	40%	Capex/Depreciation				
							1371% 100% 100% 100%				
							Days Working Capital				
							83 83 83 83				

Balance sheet						Segments					
\$m	2020A	2021A	2022E	2023E	2024E	2021A	2022E	2023E	2024E		
Cash & Deposits	3.1	5.9	10.0	10.0	11.6	Revenue					
Receivables	15.4	1.9	1.7	2.1	2.3	Ballistics	16.9	24.5	27.5	27.5	
Inventory	9.0	10.7	10.1	11.9	13.2	Technology	11.5	10.3	13.9	15.2	
PP&E (incl. ROUA)	4.7	11.9	11.9	11.9	11.9	GROUP	28.3	34.7	41.5	42.8	
Intangibles	1.3	1.2	1.2	1.2	1.2	Gross Profit					
Other Assets	1.9	0.8	0.8	0.8	0.8	Ballistics		9.4	11.8	11.6	
Total Assets	35.3	32.4	35.8	37.8	41.0	Technology		3.4	4.0	5.3	
Payables	16.5	6.2	5.8	6.8	7.6	GROUP	8.1	12.8	15.8	17.0	
Borrowings (incl. lease liabilities)	3.6	4.4	7.6	3.3	2.4	Gross Margin					
Provisions/other (incl. lease liabilities)	0.7	0.4	0.4	0.4	0.4	Ballistics		38.4%	42.8%	42.2%	
Total Liabilities	20.9	11.0	13.8	10.6	10.4	Technology		33.5%	28.8%	35.0%	
Shareholders' Funds	14.5	21.4	22.0	27.3	30.6	GROUP	28.7%	36.9%	38.1%	39.7%	
Net Debt	0.6	-1.5	-2.4	-6.6	-9.2						

Cashflow statement					
\$m	2020A	2021A	2022E	2023E	2024E
EBITDA	0.8	-3.0	2.2	8.1	8.8
Net interest	0.0	0.0	-0.3	-0.2	-0.2
Tax paid	0.0	0.0	-0.2	-1.7	-1.8
Working capital movements	-5.4	3.9	0.4	-1.1	-0.7
Other	0.0	-1.1	0.0	0.0	0.0
Operating CF	-4.5	-0.3	2.1	5.1	6.0
Capital expenditure	-1.0	-8.4	-0.6	-0.6	-0.6
Asset sales	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.0	0.0	0.0	0.0
Investing CF	-0.8	-8.4	-0.6	-0.6	-0.6
Net borrow + princ. lease payments	-0.4	0.5	2.6	-2.6	-1.5
Dividends paid	0.0	0.0	0.0	-2.0	-2.2
New share issues	3.4	11.2	0.0	0.0	0.0
Financing CF	3.0	11.7	2.6	-4.6	-3.7
Effect of FX Rate Changes on Cash	0.0	-0.2	0.0	0.0	0.0
Net change in cash	-2.3	2.8	4.1	-0.1	1.7

Share price and volume					
Volume (Thousands)	Price (AUD)				

Company description	
<p>XTEK provides front-line equipment in defence, and law enforcement. It manufactures body armour and helmets and has exclusive agency agreements for distribution of unmanned aerial and ground vehicles from which it has also built a service and support business. XTEK has also developed an innovative technology (XTclave) for use in body armour and helmets that it is now commercialising. It has operations in Australia and the US with most sales in those regions as well as sales globally.</p>	

Source: Company, MST Access

Investment thesis

Key revenue drivers for XTEK come from the sale of body armour and helmets to defence and law enforcement - primarily in the US and Australia - with the war in Ukraine creating short-term demand. Additionally, revenue growth will also come from the sale of third-party unmanned ground and aerial vehicles to Australian Defence.

Additional drivers of value for the Group are the restructure and strategic refocus undertaken by the current CEO, and the growth in HighCom sales and margins from leveraging its channel to deliver XTclave based products. XTclave characteristics provide competitively priced lighter weight body armour and more complex shapes give it particularly important advantages in female body armour and helmets.

Global geopolitical trends in the Asia-Pacific and in Europe have given cause for reassessment of defence spending in XTEK's key markets of the US and Australia. The war in Ukraine has likely catalysed the decisions to increase long term spending on defence. As recent sales have shown, this war has created demand for high quality personal protective equipment allowing HighCom to deliver to customers outside its usual sales geographies.

Over the last five years we have seen a steady and consistent shift in Australian Defence attitudes about procurement. This will increase the support for Australian manufacturing and services in the delivery of Defence contracts. We expect that will support demand for XTEK's supply of unmanned ground and aerial vehicles and their on-going maintenance. XTEK's strong history as a value-added reseller and support provider to Defence will underpin its growth.

XTEK completed the commissioning of its XTclave manufacturing plant in Adelaide in April 2021. Using the pilot plant, XTEK completed its first major order of \$2m to Finland in 2020. While able to offer competitively priced lightweight body armour, its ability to deliver high strength complex profile products make it ideal for female body armour and helmets. Particular configurations allow it to meet the US based standard, III++, with product development underway targeting Level IV protection, as well as other configurations at Level III+.

Near term orders slated for urgent delivery from customers outside its usual US and Australian geographies are supporting strong FY22 growth. In the past 3 months, there has been \$13.2m of additional orders, with A\$8.1m being for helmets and body armour for immediate delivery to Eastern Europe. These orders were direct-to-customer, and we therefore expect they were higher margin.

Even without the benefit of the additional direct orders, we expected recovery in HighCom gross margins from the COVID-19 affected 25% in FY20 to a closing run rate of 33% in FY22 and a similar margin for all of FY23. Longer term margin growth in HighCom is likely to come as a result of an increase in direct and reseller sales with private label sales showing much more limited growth. We expect that this will be enabled through the provision of higher volumes of products based on the proprietary XTclave technology.

Local sales of unmanned vehicles in Australia to Defence will arise as XTEK wins supply contracts. It is currently bidding on ~\$80m of contracts expected to be awarded over the next 2 years.

Key to the Group's improved profitability has been the new CEO's implementation of a strategic plan that has delivered much sharper focus on business segments and a reduction in overheads of an estimated \$3m pa with 2H FY22 seeing much of that benefit.

We value XTEK at A\$0.52 per share. There is the potential that the momentum in recent ballistics orders driven by the conflict in Eastern Europe will continue and result in further upgrades to FY22e and FY23e.

Figure 2: Valuation summary

XTEK valuation (June 2022)					
Market Multiple FY22 - (EV/EBITDA)	x	8.9	Net Debt	A\$m	-2.4
Discount	%	30%	Equity Value	A\$m	52.7
Multiple applicable to XTEK	x	6.2	Diluted Shares on Issue	m	100.6
FY23 EBITDA	A\$m	8.1	Equity Value per share	A\$	0.52
Enterprise Value	A\$m	50.2			

Source: MST Access

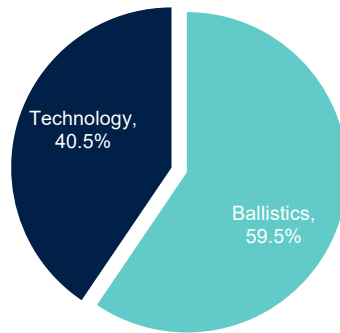
Manufacturing and agency sales

More than half of XTEK’s revenue comes through its HighCom subsidiary from the sales of body armour and helmets that it manufactures primarily in its US plant. It is expected to increasingly include XTEK's proprietary XTclave technology which provides low profile, light-weight armour ideal for complex shapes such as female body armour and helmets. XTclave uses high isostatic pressures (~300bar) at 200°C to cure and consolidate composite materials.

XTEK also has sole-agency distribution agreements in Australia for unmanned aerial and ground vehicles for Defence and has long-held maintenance contracts for these and third-party products.

XTEK has divided its business into two divisions: Technology (which includes support services) and Ballistics.

Figure 3 – FY21 business segment revenue contributions



Source: Company, MST Access

This business has a long history in the provision of high-quality service with Defence. The Technology division also has a number of proprietary products at various stages of development, but these are not generating meaningful revenue. As part of a more disciplined approach to capital allocation, these products are being more closely analysed to ensure they meet XTEK's more stringent criteria around the viable opportunities for the products.

The Ballistics division now consists wholly of the US based HighCom Armor Inc that XTEK acquired in October 2019. All XTEK's ballistic protection products – most notably XTclave products – are sold under the HighCom brand, and XTEK owns all the IP in products sold in the Ballistics division. Products are manufactured at the Columbus Manufacturing Centre (CMC) and the Adelaide Manufacture Centre (AMC). XTclave products are manufactured solely at AMC.

Figure 4 – XTEK divisional businesses: proprietary and agency

	TECHNOLOGY		BALLISTICS	
	Proprietary	Agency	Proprietary	Agency
Systems		UGV, UAV	Body Armour	
Sensors	SARBI	Virolens	Ballistic Helmets	
Software	XTAtlas, AirWolf		Composite Structures	
Support	Agency and 3rd party products			

Source: Company, MST Access

Note that while all HighCom’s sales are its own products, it is only the XTclave products from the Adelaide manufacturing centre that have significantly unique characteristics arising from the patented compression techniques used in that process.

Most of the earnings come from proprietary products within Ballistics, which accounts for 59% of revenue, with the sale of third-party products accounting for a further 37%, and support/maintenance making up the remaining 4%. We expect that XTclave products will support earnings growth in HighCom following successful commercialisation of the technology.

Ballistics division

Most of the sales in this division come from HighCom which was acquired in October 2019. All products now sold are branded HighCom – even the small amount that is sold directly from Adelaide.

Part of the strategy of acquiring HighCom was provide a channel to market for XTEK's XTclave based products from AMC. Currently 90-95% of plates produced at AMC are sent to the US market. These are shipped to HighCom's plant in Columbus, Ohio as ballistic cores to which other subcomponents such as ceramic plates and trauma foam backing are added – depending on the end product. They are then wrapped in a tough fabric ready for sale on a standalone basis or for sale with a wearable vest. Flexibility to make multiple high performance products from a base ballistic core allows the company to satisfy the ‘Made in the USA’ requirements which are critical for domestic sales in that country. It also reduces the risk of holding excessive finished product inventory and allows greater responsiveness to change in market demand.

XTclave armour plates are manufactured solely in Adelaide and sales of A\$6.5m in FY21 represents just under a fifth of capacity. Once demand for XTclave materials approaches capacity, it is expected that an XTclave production facility will be built in HighCom's plant in Columbus, Ohio.

All the Ballistics revenue is derived from the sale of helmets and personal armour plating mostly as part of wearable vests or helmets. There are a range of other potential applications, but the focus remains on existing products for defence, and law enforcement and first-responder personnel.

Until the start of the war in Ukraine, most of the sales of Ballistic products were in the US, with additional sales in Europe and Australia. The market is global and XTEK's solutions are applicable in all regions so geographic spread of the product is likely limited to the sales teams that XTEK employs to develop new markets. Some of the more recent sales have come from regions outside of XTEK's usual sales geographies, as demand has been generated by the war in Ukraine.

Sales revenue from HighCom is split broadly equally between helmets and body armour with accessory sales allocated to each.

Figure 5 – Ballistics products: helmet, body armour plate and soft armour



Source: Company

Key characteristics of ballistic protection

Body armour is designed to protect the wearer from various types of bullets. Achieving an independent validation is crucial to receiving certification. The most common standard in the US is the National Institute of Justice (NIJ) which has set 5 classes of ballistic armour which refer to the level of protection that each plate provides.

Figure 6: Armor level - Institute of Justice ratings



Source: National Institute of Justice

Additional levels such as III+, III++, and III+ (special threats) have ratings for ballistics that are not officially recognised by NIJ level categorisation. There does not appear to be consistent standards across the industry for what these additional protection ratings mean. For example, Level III+ typically includes one or more of the following ballistics protection characteristics: M195, M855, single or multiple hits and at varying distances.

HighCom produces the full range ballistic armour including soft armour as well as plate armour. Around three quarters of its sales of body armour are Level IV rated plates. Soft armour is rated up to IIIA and is typically made from Kevlar and para-aramid materials and around 5mm thick and weighs less than 1 kg. Body plate armour is manufactured from a range of materials – the cheapest and heaviest being steel, followed by ceramic materials and high-end silicon carbide products. The fastest growing segment is ultra-high molecular weight polyethylene (UHMWPE) which is XTclave's classification.

An estimated three quarters of HighCom body armour sales are rated to Level IV but are represented by just four products. HighCom has a large range of body armour plates and accessories that make up the remaining 25% of body armour sales. Note that body armour (and accessories) sales account for half of HighCom revenue with the other half being helmets and associated accessories.

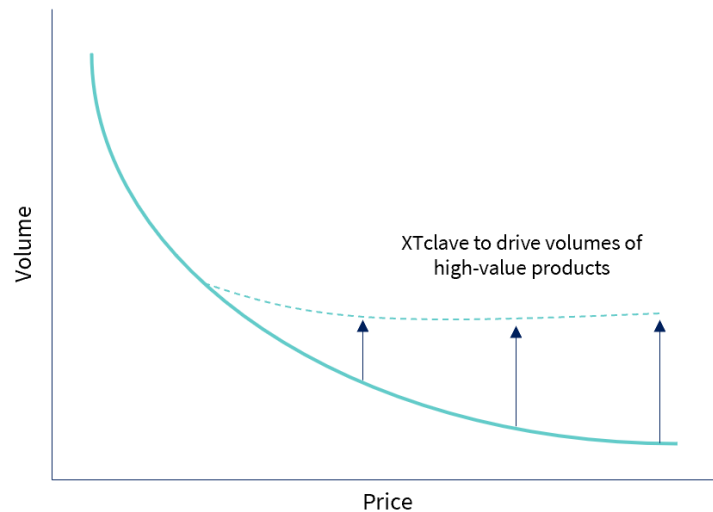
XTclave to shift the price point and drive margin expansion

The landmark sale of XTclave based body armour to Finland in 2020 provides a reference point for the product's efficacy in a simple configuration. The strategy is to use XTclave based products to increase the average price of products by offering additional features that competitors have difficulty matching.

Successfully implemented, the result will be a change in the shape of the existing volume / price relationship for the Group. An estimated 70% of HighCom's products are sold under private label arrangements. We expect that these are the most commoditised products and therefore HighCom sacrifices a greater share of the margin than through other channels. Historically, around 20% is sold through resellers with less than 10% sold direct to customers.

Through the introduction of XTclave based products, average product prices will be higher, and these products are proposed to be sold only through the reseller and direct channels which we expect will deliver stronger margins.

Figure 7: HighCom product suite – price and volume (illustrative only)



Source: MST Access

HighCom's XTclave Ballistic body armour products

There are two XTclave-based body armour plates in the HighCom portfolio of products each with different protection levels above NIJ Level III. The 3i7m is based on the plate produced in the AMC facility, while the RSTP 2, which is certified to Level III+ (Special Threats) includes a ceramic facing on the XTclave plate. Both these plates are ICW – meaning that they must be used in conjunction with a Level IIIA rated soft armour vest to achieve level III+ (Special Threats).

This two-part body armour is designed for use where personnel would normally wear a Level IIIa soft armour vest but in certain high-risk situations need to add additional protection and so a body armour plate is inserted into the vest. It is a common configuration used in both the armed forces and law enforcement. While there are more cost-effective stand-alone solutions,

New products

XTclave body armour – standalone solutions

In line with its strategy to produce finished products in the US, XTEK has started shipping a newly created XTclave backing plate from its Adelaide facility to HighCom in the US. This much thinner plate can be attached to the existing XTclave body armour plates that are currently used in conjunction with soft body armour to produce Level III+ body armour (3i7m ICW and RSTP-2 ICW). Once attached, these combined XTclave plates will achieve similar level of protection but in a stand-alone configuration. This flexibility in how XTclave plates are used is expected to effectively reduce inventory metrics as there are now two products that can be manufactured from the same XTclave body armour plate.

Ballistic plates for females

XTclave products can be designed with significantly more complex shapes than most UHMWPE products which rely on the application of mechanical force to achieve the density required. This allows the XTclave process to produce plates catering for a more diverse range of body shapes such as females and those with larger or smaller frames. XTEK believes that this will offer it a significant competitive advantage. While there are other manufacturers that apply pressure through a liquid medium, none compete with the XTclave process which applies 300 bar of pressure and 200 degrees (Celsius) to melt and shape the specialist thermoplastics used to construct the body armour plates and helmets.

Helmets

Helmets with complex curves and angles would appear to be a product uniquely suited to the XTclave technology. HighCom are selling an XTclave helmet branded, but at more than US\$3,000 it is substantially more expensive than helmets rated to Level IIIA which are in the order of US\$500 or less. There would appear to be few helmets that meet Level III ratings.

XTEK is also developing helmets with Level IIIA and III ratings which are expected to be substantially lighter than other products on the market. The target weight is around 800g and price point between US\$500 – 1000. This would appear to fill a gap in the current market and while at a higher price point than other IIIA helmets, would offer significant weight advantage of ~50%. There is an increasing focus on lightweight helmets, especially given the amount of ancillary equipment being mounted on helmets: night vision goggles, microphones, hearing protection, cameras etc.

Figure 8 –Helmet comparison

Manufacturer	HighCom	HighCom	Gentex	Ops-Core
Model	ACH-BK-L	RCH-BK-L	TBH-IIIA MC	Sentry LE
Product	Striker ACH	Striker RCH		
Material	Kevlar + UHMWPE	UHMWPE XTclave	Woven Aramid	Monolithic aramid
NIJ Cert. (Level)	IIIA	III+	IIIA	IIIA
Weight	1.4 kg	1.7 kg	1.2kg	1.2kg
Cost	US\$549	US\$3049	?	?

Source: Company, Gentex, Ops-Core

US market and channels to market

The US market for armour vests and helmets (which accounts for ~95% of HighCom sales) is a mature market with high barriers to entry, established brands, and is mostly value-oriented except for niche markets such as law enforcement, SWAT and military special forces that are prepared to pay for more premium products (lightweight and high ballistic performance). It is estimated that there are more than 19,000 different agencies that buy these products ensuring that there is a deep manufacturing and distribution industry.

HighCom products are sold through three channels: private label, resellers and direct sales. Recent direct sales of HighCom branded products to Eastern Europe have likely changed this historical channel mix and added further impetus for XTEK to grow its Direct sales channel to leverage its brand equity.

Private label (70% – 75% of sales)

HighCom sells its plates and helmets or fully completed wearable products to a range of companies that brand the products under their own names. There are numerous private label companies each of whom are likely to buy from several suppliers and undertake some of their own manufacturing (ie contract manufacture the vests into which protective plates are inserted). Consequently, it ensures that the market is highly competitive. XTEK earns its lowest margins from sales of product through this channel.

Resellers (15% – 20% of sales)

These are distributors who sell HighCom branded products. It is this channel through which HighCom intends to release XTclave based products. While only one fifth of HighCom sales go through this channel, the Company's objective is to grow this channel faster than the Private Label channel based around the proprietary competitive advantage offered by its XTclave products.

Direct (5% – 10%)

Historically, this has been a relatively small proportion of HighCom sales, and it now includes sales made in Australia direct from AMC. Recently, HighCom has received direct enquiries from Eastern Europe and has fulfilled those orders without going through the reseller or private label channel.

Commercialisation of the XTclave technology is likely to support additional direct and reseller sales.

Frame contracts

An important enabler of demand for these products is the panel selection process or “frame contracts” where suppliers get pre-approved by firms such as GSA, NASPRO and Sourcewell which have single or multi-state arrangements. This pre-approved list then informs groups of customers who place orders based on the suppliers on this list. HighCom has established itself on these contracting vehicles to allow its resellers to leverage sales opportunities in particular markets.

XTclave technology

A key strategy for the acquisition of HighCom was to provide a channel to market for XTclave products manufactured at the Adelaide facility (AMC). The facility manufactures high performance plates for body armour and helmets and started production in April 2021.

Figure 9 – XTclave production facility - Adelaide, Australia (AMC)



Source: Company

XTEK has been developing XTclave since 2007. It applies high pressure (300 bar), high temperature (200°C) oil for a number of hours to cure and compress thermoset and thermoplastic composite materials for body armour plates and helmets. This patented process aims to produce products that are thinner, lighter and stronger and can be profitably delivered at a price point acceptable to customers.

The AMC has capacity that is equivalent to ~\$40m revenue annually and is currently operating at around a \$6.5m pa rate.

Australian competitors

Within the Australian market, there are a number of domestic manufacturers, but none that produce an ultra-high-performance product such as XTclave.

- **Craig International Ballistics:** Craig International Ballistics is the leading Australian manufacturer of ballistic armour. The company is private/ family-owned and was established in the late 1990s with >100,000 plates supplied to Australian Defence and local police over that time.
- It produces a range of soft armour (Level IIIA) and hard body armour rated (ICW IIIA soft armour): III, III+ and IV with rates ranging in weight up to 2.6kg for the Level IV armour.
- **Armor Australia:** Armor Australia is a private company established in 2002, which manufactures ballistic protection solutions. The company is wholly Australian owned with a hydroclave processing facility in Sydney and an R&D Centre in Adelaide. While a similar process to XTEK it operates at around 1/3rd of the pressure and 2/3rds of the temperature of XTclave.

Armor Australia claims that its R&D centre, led by Dr David Thompson, has been responsible for the creation and commercialisation of the DTIP technology has resulted in the commercial release in 2021 of what it claims are the lightest and thinnest 100% UHMWPE standalone insert plates for covert, dive and land operations. Further information about the characteristics of these plates is not available and therefore it is not possible to compare its products with XTEK's XTclave-based armour plates.

While the market for ballistic protection is a global market, having locally developed and manufactured products are likely to attract more demand given the focus on domestic sourcing of products for Defence and law enforcement contracts. Supply of ballistics protection equipment is likely to be a small part of large outfit contracts for law enforcement and Defence and the prime contractors will be looking for ways to ensure local supply.

Both Craig International and Armour Australia would appear to have strong positions in the Australian market. XTEK is likely to need to prove superior, cost-effective performance of its HighCom products to enable it to take material share of the Australian market in ballistic protection.

International competitors

These are a combination of subsidiaries of large multi-national companies, and large private companies.

BAE Systems, Point Blank Enterprises and Armour Express, Safariland (includes Aegis Engineering), Armoured Republic, LLC, Ballistic Body Armour, Ceradyne Inc (3M subsidiary), Kejo Limited, Pacific Safety Products.

Technology division

This division accounted for 41% of sales in FY21 with most of the sales in this division come XTEK's role as a value-added reseller (VAR) of UGVs and UAVs. Support for these products as well as third party products accounted for 4% of Group sales.

XTEK has two groups of proprietary products in this division: XTatlas and a chemical sensor SARBI. XTatlas sales were ~\$0.2m in FY21 with only minimal revenue implied from the sale of XTEK's chemical sensor.

XTEK segments its technology division into Systems, Software, Sensors and Support.

Systems

AeroVironment is a US based global defence supplier that specialises in unmanned aerial vehicles. The company is listed on the NYSE (ticker: AVAV) and has a market cap of c.US\$2bn. XTEK is the exclusive regional AeroVironment distributor across Oceania for its Wasp (Small Unmanned Aircraft System – SUAS), Puma (slightly larger SUAS) and SwitchBlade (Loitering Missile – LM) solutions.

Telerob is a leading supplier of unmanned ground vehicles (UGVs) based in Germany and was acquired by AeroVironment in Feb-21 for US\$62m. XTEK is the exclusive distributor for Telerob across the Australasia

region. For the last 15 years, XTEK has been the incumbent supplier and maintainer of the ADF’s fleet of Telerob “Teodor” large Explosive Ordinance Disposal (EOD) Robots.

Figure 10: AeroVironment’s WASP



Figure 11: Telerob’s Telemax



Source: Company

Milrem Robotics is a leading robotics and autonomous vehicle systems developer founded in 2013 and based in Estonia. XTEK is the exclusive distributor for Milrem’s THEMIS and TYPE-X UGVs across Australia, New Zealand and the South Pacific.

Recon Robotics is the world leader in tactical micro-robot and personal sensor systems, based in the US. XTEK is the exclusive Australian distributor for Recon Robotics.

Figure 12: Milrem’s THEMIS



Figure 13: Recon Robotics’ Throwbot



Source: Company

Software

XTEK proprietary XTAtlas software continues to be developed with two current applications:

Scout is Geospatial Intelligence Application offering a range of AI enabled software tools designed to assist with UAV mission planning, 3D mapping and modelling, data dissemination, and decision making

AirWolf is a tactical situation awareness application containing AI enabled data fusion tools designed to shorten the “Sensor to Effector” timeline

Sensors

XTEK’s proprietary SARBI chemical detection sensor is being used as a ruggedized payload for the Recon Robotics Thowbot2 micro-robot. SARBI detects and warns of noxious and dangerous chemical gases and is

fully integrated with XTEK’s XTAtlas software, allowing chemical alert data to be displayed graphically and mapped geospatially.

XTEK also had signed a distribution agreement in Mar-21 with UK company Key Options for their Virolens product, a rapid non-invasive Covid-19 virus detection device that provides a highly accurate result in 20 seconds using AI software. XTEK announced at the 1H22 result that this technology has not been able to secure the TGA approvals for use in Australia and subsequently the c.\$2.5m of inventory has been fully impaired. That being said, Key Options is continuing discussions for conditional purchase orders which would be filled using the XTEK inventory.

Figure 14: Integration of SARBI into the Throwbot2



Figure 15: Key Options’ Virolens



Source: Company

Support

XTEK also provides maintenance and support services as well as spare part sales for both UGV and UAV systems which provide regular recurring revenues. XTEK has been supporting Telerob’s “Teodor” EOD Robots for over 14 years and continues to support the Australian Army’s Wasp SUAS fleet.

The reset

Following on-going losses in the Group, a new CEO, Scott Basham, was appointed in Jul-21. Scott undertook a strategic review of the business, resulting in elimination of some business lines, a 30% cut in overheads, and a capital raising to restore the balance sheet. Management has been revitalised with six out of the CEO's nine direct reports having been appointed by Scott.

History of XTEK

XTEK has a long history as a niche value added reseller and provider of training and support for those products. Its on-going relationship with Defence would indicate that it is highly regarded. However, its history of creating shareholder value is poor.

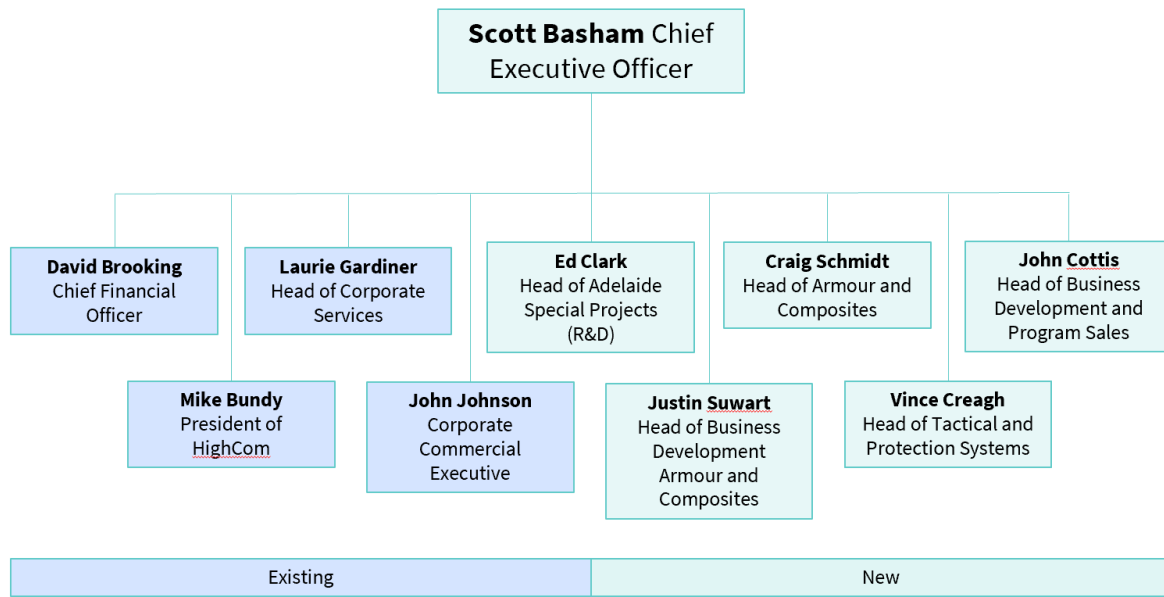
Timeline

- **1976** – Company established
- **2005** – Lists on ASX - \$14m at 50c ps.
 - Company operates as an agency business
- **2006** – Poor result after IPO, business restructured
 - Significant expenditure lost after proposed UK company acquisition falls through
 - Company acquires research and development facility
 - Reduce headcount, reduce direct and indirect overheads, improve alignment of operational resources with client needs
 - **New CEO:** Stephen Thompson
- **2007** – Initial XTclave design concept is developed
 - **New CEO:** David Jarvis
- **2008** – Small prototype XTclave plant designed and built
- **2009** – Series of new agencies announced including AV UAS
- **2010** – Completed strategic review
 - **New Interim CEO:** Robert Sykes
 - Raised Capital: \$700,000
- **2011** – XTclave armour passes independent testing, patent lodged
 - **New CEO:** Brian Malcolm
 - Raised Capital: \$700,000
- **2012** – JV signed with Armor Australia for construction of XTclave armour
 - Raised capital: \$500,000
- **2013** – Awarded US\$1.5m contract with US DoD Foreign Comparative Testing Program for body armour plate solutions (XTclave)
 - Raised capital: \$500,000
- **2014** – Company relocates to Canberra
- **2016** – Develops XTatlas after acquisition of Simmersion Holdings (for 175,000 shares)
 - **New CEO** Phillipe Odoaurd
 - Raised capital: \$2.5m

- **2017 –**
 - Tender win to provide up to A\$101 million in SUAS for the ADF
 - Initial \$42m sale for 59 WASPs
 - Raised capital: \$1.5m
- **2019 –**
 - Acquired HighCom for A\$3.6m (excl. future earnout payment)
 - Raised capital: \$3.5m
- **2020 –**
 - AMC officially opens
 - First International order from Finnish Army: A\$2m
 - XTAtlas: A\$1m contract for C4 EDGE Program
 - HighCom: US\$2.1m contract from Mexican government for ballistics
 - Raised capital: \$12.1m
 - To fund international ballistics strategy
- **2021 –**
 - HighCom Armor received US Government order for US\$1.1m
 - SUAS: A\$2.8m from ADF for WASPs for additional supply of spare parts and maintenance
 - New CEO: Scott Basham
 - Strategic review commissioned
 - MD and CTO departed business
 - Strengthening of relationships between AMC and HighCom Armor across product development and manufacturing
 - Cost cutting initiatives underway – targeting annualized savings of c.\$3m
 - Raised capital: \$5.7m
- **2022 –**
 - Director and Chairman Uwe Boettcher resigns, Mark Stevens is appointed as Chairman
 - XTEK receives \$2.75m order for ballistic armor products
 - XTEK announces \$4.94m in recent orders from Defence for SUAS spare parts and systems
 - XTEK announces \$3.2m order for ballistic armor products
 - XTEK announces \$2.35m order for ballistic armor & technology products

Following the appointment of Scott Basham, there were substantial changes to senior executives in the business.

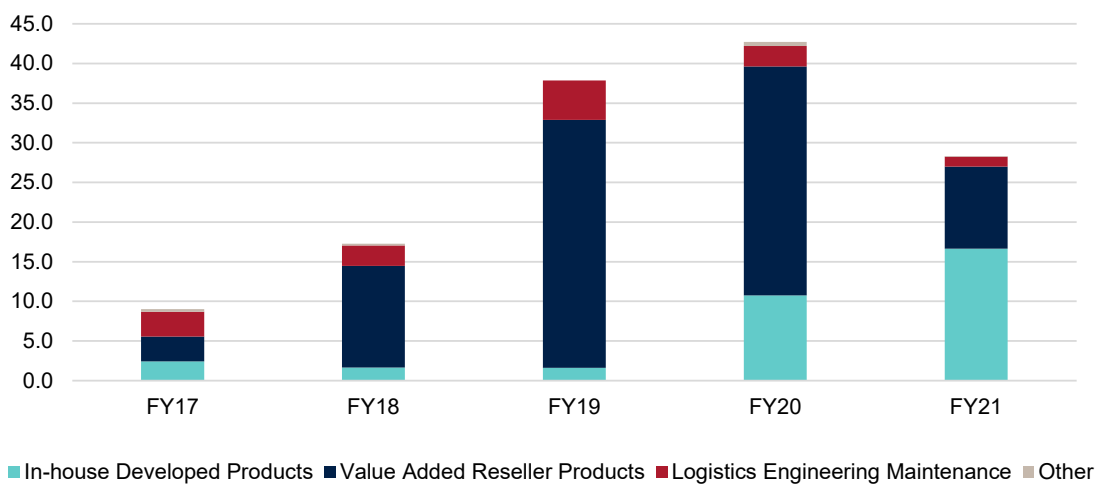
Figure 16 – Organisation chart



Source: Company, MST Research.

Scott also implemented a much sharper focus on the businesses, identifying what was core, exiting what wasn't and limited new funding to businesses that were failing to deliver. An example is the Virolens product that has failed, as yet, to get TGA approval in Australia. As announced in the 1H result, XTEK has written down \$2.4m being the value of the inventory of the Virolens products that XTEK (prior management) had purchased in preparation for it receiving TGA approval (a process that was being managed by the supplier of Virolens – Key Options). Management is working with Key Options to identify potential purchasers of the inventory that have local approval for its sale.

Figure 17 – Revenue history by segment



Source: Company

The strong VAR sales in FY18 to FY20 came from the LAND 129 Phase 4 contract with the Australian Army for the supply of SUAS “wasps”, with the contract valued at up to A\$100m. The strong growth in what is now the Ballistics division came from the acquisition of HighCom in October 2019 making a partial year contribution in FY20 and full year contribution in FY21. There is significant upside to HighCom earnings as a result of selling XTclave products through the HighCom channels.

Industry

Global body armour market¹

The global body armour market was estimated to be US\$2.3bn in 2020 with North America representing 33% of the global market. The defence industry accounts for 54% with law enforcement 36% and civilian market the remaining 10%. While this report focussed on body armour, we have assumed that the global market for ballistic protection helmets is about one third of the size of the body armour market, which aligns with market commentary. While some of the specifics discussed will not apply to helmets, the general trends are likely to be similar.

Industry growth

The key driver of growth in the body armour and helmet market is the re-emergence of geopolitical instability after 30 years of relative global calm following the end of the cold war. Law enforcement demand is likely to increase as social unrest due to wealth gaps and inequality accelerates across many countries. A key driver of innovation and technology in the sector is the demand for ever more protective equipment to match the increased power of ballistic weapons and artillery. Military and law enforcement personnel are also carrying more communications equipment and a wider variety of weapons that adds to the physical weight of the total outfit. As such, demand for increasing lightweight solutions will continue to drive innovation.

Growth rates for the industry range between 4% and 7% CAGR for the next six years across categories and geographies. The industry is dominated by large enterprises with the top five companies accounting for more than 50% of the market.

Innovation ranges from incremental changes to lower cost, weight and thickness through to highly prospective materials such as those based around non-Newtonian liquids that remain in liquid form until stuck with a projectile when they become solid enough to provide protection. UHMWPE (XTclave’s material) is the area in which most of the innovation is occurring and is expected to be the strongest area of growth of the material segments, growing at a forecast 7.2% over the next five years.

Market segmentation

Unsurprisingly, the global market is dominated by North America which accounts for one third of the total market with Asia Pacific next 26%. Across industry segments, Defence is the largest at 54%.

Figure 18: Ballistics geographical end markets

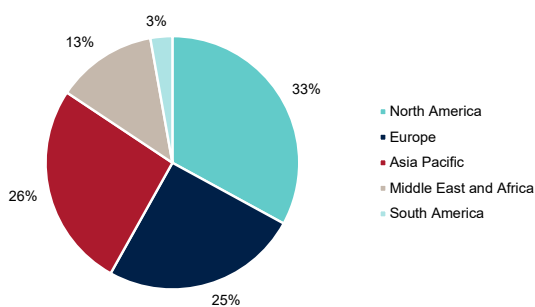
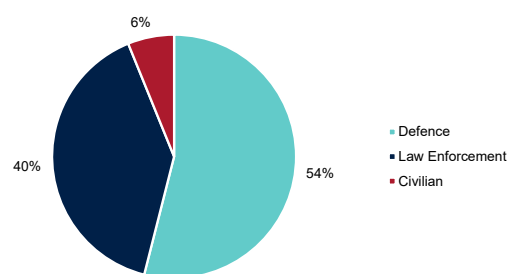


Figure 19: Ballistics industry end markets



Source: Body Armor Market Analysis, 2017 – 2028; Grand View Research

The market can also be segmented by the level of protection. Level III and IV, the two highest levels of protection are similar with 25% and 24% respectively. XTEK's HighCom sells products from Level II – IV with XTclave products rated to level III+ with new Level IV products in development.

¹ Body Armor Market Analysis, 2017 – 2028; Grand View Research

Steel is the traditional ballistic protection product, but UHMWPE is the fastest growing material because of its ability to achieve protection while being lightweight. Four main categories of materials represent 84% of all materials used in body armour. UHMWPE currently represents 20% of the market.

Figure 20: Ballistics protection level segmentation

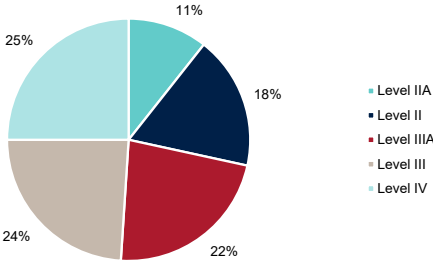
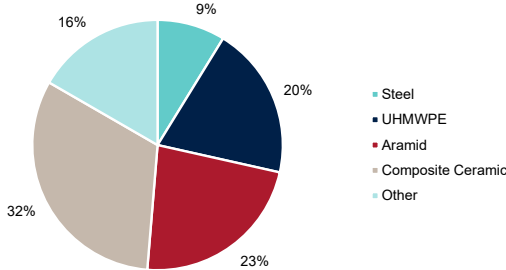


Figure 21: Ballistics material segmentation



Source: Body Armor Market Analysis, 2017 – 2028; Grand View Research

Local content in Defence contracts

The dramatic shift in Australian Defence spending strategy, with a strong focus on building Australian capability and ensuring Australian content is expected to support medium and long-term demand for XTEK. This complements the expected strong near-term sales to Defence.

Australian Government – local content and advanced manufacturing

In October 2020, the Federal government announced \$1.5bn of new funding for investment over the next four years into a Modern Manufacturing Strategy (“Make it Happen – The Australian Government’s Modern Manufacturing Strategy”). Defence is one of six key manufacturing priorities.

Commensurate with this strategy is the change in the Government’s emphasis on Australian Industry Capability (AIC) in the defence industry. The situation in Australia could not be more different than it was in the late 1990’s when there was no consideration given to developing Australian defence manufacturing capability.

In Sep-20, the Federal Government formally announced a shift in attitude with a much-increased emphasis towards developing local capability and content in the defence industry. That shift was evident in the earlier (2019) Defence Policy for Industry Participation which created more opportunity for private Australian companies to work with Defence. It introduced a new requirement on tenderers for Defence contracts to provide detailed commitments on how they will involve and develop Australian industry and include Australian content in their supply of products to Defence. In previous years, the requirement for Australian content was often achieved through setting up manufacturing in Australia but doing little or nothing to develop Australian industry capability.

In addition, major suppliers to Defence in Australia sign a Global Supply Chain (GSC) Deed which commits them to getting Australian companies into their global supply chains.

The improvements to the 2019 Policy that were announced last year included stronger measurability, accountability and enforceability of AIC plans in Defence contracts. This includes an independent AIC audit program and enhanced AIC contractual framework. An important part of this is ensuring enhanced industry capability, not just Australian content.

The Department of Defence continues to review policies to ensure that its objectives regarding development of Australian industry capability are achieved. Concerns exist that the current definition of an Australian company includes subsidiaries of foreign controlled organisations and effective development of Australian industry may not be achieved. The industry press (Janes, Defence Connect) has reported that Defence is reviewing the definition of an Australian company to ensure that the spirit of the objectives of the AIC are realised.

XTEK offers particular prime Defence contractors an attractive way for them to meet their AIC and GSC commitments. Its proprietary products, particularly its XTclave-based personnel protective products are globally best-in-class.

Technology opportunities

The value of this fundamental change to XTEK is particularly evident in its Technology division given the company’s historical success as a Value-added Reseller to the Australian Army. The company has identified c.\$120m in promising tender opportunities where given their expertise and distribution relationships they are in a very competitive position to be awarded. These contracts also will likely have a support/maintenance contract for many years after the initial sale which will lead to recurring revenue for the tender awardee. When XTEK won the LAND 129 Phase 4 contract in 2017, this annual support contract was c.21% of the total \$42m in Wasp sales, with support to be provided for 5-7 years (still currently being provided). In the below forecasting section we have analysed the probability of award of each of these tenders.

Forecasts and valuation

Forecasts

Ballistics

Our ballistics forecasts are broadly based off the long-term sustainable growth rate of the US, with consensus forecasting the industry to grow at a 6.5% CAGR for the next 5-10 years. The competitive advantage that XTEK holds is the incorporation of XTclave products into the HighCom portfolio which gives the brand greater opportunity to move away from the private label space and into the higher margin reseller and built-to-order channels. The US market's shift towards premium products should further support this growth, as law enforcement agencies/defence forces are prioritising optimum protection for officers/soldiers. In this sense, the development of Level IV XTclave vests will be a catalyst for further drive demand.

We have currently forecast that in 2HFY22 the core ballistics division will grow at 2% pcp, with the benefits of XTclave flowing through from FY23, which leads to gradual price/mix benefits flowing through. We also have separated the one-off orders which have been announced since the Russia/Ukraine conflict began (A\$8.1m in Ballistics). We forecast these "one-off" orders to decline over coming years.

We also expect the margin of the ballistics division to improve significantly, as the HighCom business pre-acquisition was generating margin of c.40%, but in 1H FY21 / 1H FY22 the margin was only 22%/25%. This was primarily due to covid impacts and cost headwinds, with the business targeting 32-35% margins by year end.

Longer term, we expect incremental margin improvement of the business driven by higher priced products underpinned by XTclave technology and distributed either directly or through resellers – both of which we assume to have higher margins than the private label channel.

Figure 22: Ballistics segment

BALLISTICS DIVISION	FY20	FY21	1H22	2H22e	FY22e	FY23e	FY24e
Core Revenue	10.7	16.9	7.6	8.8	16.4	17.5	19.5
Total Growth		56.9%	-10.6%	5.1%	-2.8%	7.1%	11.3%
Volume Growth				2.0%		3.5%	7.0%
Price/Mix Growth				3.0%		3.5%	4.0%
One-off orders				8.1	8.1	10.0	8.0
Total Ballistics	10.7	16.9	7.6	16.9	24.5	27.5	27.5
Total Growth		56.9%	-10.6%	102.3%	45.2%	12.5%	-0.1%
% Total Revenue	25.1%	59.5%	66.1%	57.9%	61.5%	55.7%	56.1%
Core Business Gross Profit		3.9	1.9	2.6	4.5	5.8	6.8
Gross Margin		23.0%	25.0%	30.0%	27.7%	33.0%	35.0%
One-off Orders Gross Profit				4.9	4.9	6.0	4.8
Gross Margin				60.0%	60.0%	60.0%	60.0%
Total Gross Profit		3.9	1.9	7.5	9.4	11.8	11.6
Gross Margin	0.0%	23.0%	25.0%	44.4%	38.4%	42.8%	42.2%

Source: Company, MST Access

Technology

Our technology forecasts are based off the current tender opportunities which XTEK has identified, with an estimated probability of award of each opportunity allowing us to derive an expected value.

Figure 23: Technology segment tenders

Future Tenders	Assumed Delivery	Opportunity (A\$m)	Status/ Notes	Award Probability	Expected Value
SYSTEMS					
UAVs					
NZDF - long-range small UAVs	FY23	5-10	Sole source tenderer	80%	6.0
ADF - long-range small UAVs	FY23	5 - 10	Shortlisted	50%	3.8
UGVs					
ADF - replacement of EOD UGVs	FY23	25-40	Shortlisted	40%	13.0
ADF - Combined ballistics + UGVs	FY24	20+		15%	3.0

Source: Company, MST

We also assume that each contract will include a 5-year annual support contract that is equal to 20% of the sales value. This is based off the 2017 Wasp contract, where annual support/maintenance was c.21% of the overall \$42m of sales. We have assumed that the margin of the reseller business is 20%, with repair and maintenance higher margin at 35%, again benchmarked off the historical performance of the company.

Recent orders

In the last few months, XTEK has received \$13.2m of orders - \$8.1m of which were orders for urgent delivery to Eastern Europe that we assume were associated with the war in Ukraine.

Figure 24: 2022 Recently announced orders

BALLISTICS					
Date	Amount (A\$m)	Delivery	Channel	Gross Margin	Gross Profit
07 Mar-22	2.8	Urgent	Direct	60%	1.7
24 Mar-22	3.2	Urgent	Direct	60%	1.9
04 Apr-22	2.2	Urgent	Direct	60%	1.3
TOTAL	8.1			60%	4.9
TECHNOLOGY					
Date	Amount (A\$m)	Item	Channel	Gross Margin	Gross Profit
09 Mar-22	4.9	SUAS	Direct	20%	0.99
04 Apr-22	0.2	Hardware & Software	Direct	20%	0.04
TOTAL	5.1			20%	1.03

Source: Company, MST

Overheads and group forecasts

Since joining mid last year, CEO Scott Basham has undertaken a significant restructuring of the overheads with estimated overheads in 2H FY22 running at ~\$600k / month. We forecast some increase in those overheads over time.

Figure 25: Overheads and group revenue and gross margin forecasts

	FY20	FY21	1H22	2H22e	FY22e	FY23e	FY24e
TOTAL GROUP							
Ballistics division	10.7	16.9	7.6	16.9	24.5	27.5	27.5
Technology division	32.0	11.5	3.9	6.4	10.3	13.9	15.2
Group Revenue	42.7	28.3	11.5	15.1	26.6	31.5	34.8
Growth	12.8%	-33.7%	-7.1%	-5.1%	-6.0%	18.2%	10.4%
Ballistics division		3.9	1.9	7.5	9.4	11.8	11.6
Technology division		4.3	1.2	2.2	3.4	4.0	5.3
GROSS PROFIT	8.6	8.1	3.1	9.7	12.8	15.8	17.0
Margin	20.2%	28.7%	27.1%	64.2%	48.2%	50.2%	48.8%
Add back D&A	-0.8	-1.1	-0.5	-0.7	-1.2	-1.2	-1.2
Corporate Overheads (ex. Depreciation)	-8.1	-11.8	-7.0	-3.6	-10.6	-7.7	-8.2
EBITDA (Adjusted)	1.3	-2.6	-3.4	6.8	2.2	8.1	8.8
Margin	3.0%	-9.1%	-29.1%	44.9%	8.3%	25.7%	25.2%

Source: Company, MST Access

Balance sheet and cash flow

As at the 1HFY22 result the company had a net debt position of \$0.7m, with a cash balance at \$4.5m. In recent years, the company has seen operating cash flows oscillate around the breakeven point but these have been negative in FY20 and FY21, with a \$8m cash outflow in the 1HFY22 (\$2m impact from working capital build). We assume that this working capital build unwinds in the 2HFY22 given a majority of the one-off orders have been sourced from HighCom inventory. We forecast that XTEK will be cash flow positive in the current half.

Valuation

We have valued XTEK using a discounted market EV / EBITDA multiple. The valuation reflects our estimates of FY23 earnings coming from the HighCom ballistics business and technology business. The capitalisation multiple applied to those earnings reflects our view as to the growth and sustainability of those earnings.

The nature of revenue from each of these segments is quite different with HighCom revenue reflective of sales of body armour and helmets with recognised market brand through established distribution channels. The Technology segment revenue in the near term relies winning a proportion of identifiable Defence tenders and associated maintenance and service agreements. In the medium term, we assume Defence continue to offer tenders for similar types of equipment and that XTEK continues win a portion of these contracts. XTEK's position as a long-standing supplier to Defence, increasing Defence expenditure and a focus on Australian suppliers supports our forecasts and valuation.

This multiple is benchmarked off the median ASX 300 multiple (next 12 months) of 8.9x, which is discounted by 30% to account for our estimates of the risks to the future earnings.

Figure 26: EV/EBITDA based valuation

XTEK valuation (June 2022)					
Market Multiple FY22 - (EV/EBITDA)	x	8.9	Net Debt	A\$m	-2.4
Discount	%	30%	Equity Value	A\$m	52.7
Multiple applicable to XTEK	x	6.2	Diluted Shares on Issue	m	100.6
FY23 EBITDA	A\$m	8.1	Equity Value per share	A\$	0.52
Enterprise Value	A\$m	50.2			

Source: Company, MST

Risks

- The key risk to our forecasts is that the characteristics of the XTclave product (strength, weight, thickness, cost) are insufficient to provide the level of competitive advantage that make it meaningfully attractive to customers.
- New iterations of XTclave products are required to meet NIJ certification to ensure acceptance of the products by large parts of the market. Failure to do so will significantly reduce its potential market, and may result in sales being too low to justify the current share price.
- A key risk to our forecasts is that the characteristics of XTclave proposed products are matched by competing products. Development of lightweight products based on UHMWPE is forecast to be the fastest growing segment of body armour with significant funds being invested in the development of products lighter, thinner products that can be delivered at lower price points. There is also significant investment in other technologies, including new materials which, if successful, may also affect the relative attractiveness of XTclave products.
- The Technology division relies primarily on winning of tenders with Defence (in Australia). While XTEK has a strong track record of supply and maintenance contracts with Defence, there is no guarantee that it will continue to win tenders or win them at the rate it has in the past.

- While we forecast that XTEK will not need additional capital to reach break-even, the history of the business is that the Company has needed to raise additional capital on a regular basis. Should the company need to raise additional capital, there is a risk that due to market conditions or company specific issues, it may not be able to do so. Should this happen, there is significant risk to the value of shareholders investment in this Company.

Environmental, social and governance

Environmental

The ballistic vests that XTEK and HighCom produce are made from steel, ceramics or polyethylene or some combination of those products. The cost of the underlying materials – prior to their processing for inclusion in XTEK's products is relatively low.

The autoclave at the AMC requires elevated temperatures of up to 200°C and elevated pressures of up to 300 bar requiring a significant amount of energy. As would be expected, product veracity is valued significantly more than carbon footprint or GHG emissions.

The raw materials used in the production of the XTclave products are based on bio-based polymers rather than hydrocarbon based polymers.

Social

The Company has a long history of supply of products and services to Defence in Australia. Such longevity to a demanding client speaks to the quality of customer satisfaction.

Data protection and privacy is of utmost importance given the customers to which XTEK and HighCom sell which we would expect would include external audits of processes and systems.

Unsurprisingly for an early-stage company of this size, there is a lack of gender diversity at both management and board level. We would expect that as the company size and maturity increases, female representation will increase.

Governance

XTEK has a strong corporate governance structure based on the ASX Corporate Governance Principles. This includes a policy around anti-bribery and anti-corruption – particularly important given that it tenders for a portion of its revenue.

The five person board has a majority of Directors with defence industry experience or contacts. Note that there are no executive directors on the board.

Appendix 1 – Board

Mr Mark Stevens – Chairman of the Board/ Non-Executive Director

Mr Stevens joined the XTEK board on Feb-22 as the chairman of the board following the retirement of Uwe Boettcher after 13 years with the company due to ongoing medical issues. Mr Stevens is the Founder and Managing Director of Arican and is one of Australia's leading Defence advisers and commentators. He is a 1984 graduate of the RMC Duntroon and served for ten years as an infantry officer. Since 1995, Mr Stevens has worked primarily as a management consultant and adviser including appointments as the Defence lead for IBM Australia and then across Asia Pacific. Since forming his first advisory business in 1999 he has led over 250 deals into Defence and in 2018 was instrumental in originating the first acquisition by Private Equity of an Australian Defence Industry company, Marand Precision Engineering by CHAMP.

Mr Christopher Pyne – Non-Executive Director

Mr Pyne brings a wealth of commercial, political and global defence experience to XTEK, having served as a Member for Parliament (MP) for over 25 years, from which he retired early 2019. Mr Pyne served as the 54th Australian Defence Minister and was responsible for delivering the \$200 billion build-up of Australia's military capability, the largest in Australia's peacetime history. He assisted in developing the 2016 Defence White Paper and implementing the Integrated Investment Program. Mr Pyne is the current Chairman of Pyne and Partners and Principal of GC Advisory, consulting to business in the domain of government and political engagement. Both are headquartered in Adelaide, South Australia but operate nationally and globally.

Mr Chris Fullerton – Non-Executive Director

Mr Fullerton has extensive experience in investment, management and investment banking and is a qualified chartered accountant. He worked in Hong Kong and Singapore for 15 years before returning to Australia in 1992. He is an investor in listed equities and private equity and has been a non-executive director of a number of ASX listed companies, and his unlisted company directorships cover companies in the property investment and agriculture sectors.

Brigadier Mark Smethurst – Non-Executive Director

Brigadier Smethurst's significant experience spans over 35 years in Australian Army, with 27 years as a Senior Special Forces Officer and he was the Deputy Commander of the Australian Special Forces Command. He commanded the NATO Special Forces in Afghanistan and was the Deputy Chief of Operations for the US Special Operations Command. Prior to leaving the Australian Defence Force in March 2017 he was Head of Preparedness/Director General of Joint Force Analysis, responsible for developing Future Concepts, Experimentation, Lessons and Preparedness. Brigadier Smethurst is a member of, and Advisor to the Global SOF Foundation and is Chairman of the Commando Welfare Trust. More recently he was appointed as a Strategic Advisor to the XTEK Board of Directors.

Mr Ben Harrison – Non-Executive Director

Mr Harrison has 15 years of experience in advising and investing in companies. He commenced his career as a Project Manager for a large international engineering consulting firm working on several infrastructure projects in Australia and Southeast Asia. Mr Harrison later moved into investment banking, working for Wilsons where over a 5-year period he executed over \$2.0 billion in capital market transactions and \$5.5 billion of public M&A transactions. He is a founder and Chief Investment Officer of Altor Capital and is active in the private equity sectors in Australia. Mr Harrison currently holds board and advisory roles with Patriot Environmental Management, Propell Holdings, and Change Financial Limited.

Appendix 2 – Senior Management

Mr Scott Basham – Chief Executive Officer

Mr Basham joined XTEK in February 2021 and is an internationally experienced corporate executive who has a wealth of knowledge and experience gained from twenty years of involvement working on major security technology projects and system integrations across Australasia and the Asia Pacific regions. Mr Basham's expertise encompasses leadership and general management of private and public companies, strategic sales and business development, international marketing and communications, as well as commercial, operational and program management. During his career, Mr Basham has worked for a number of major global security technology companies, including Smiths Detection, Unisys, Safran Morpho, and Idemia. His last role before joining XTEK was as Group CEO of the ASX listed company Ava Risk Group Ltd. He is a former commissioned officer in the Australian Regular Army and holds a Master of Business Administration and a Master of Management from the Macquarie Graduate School of Management, and a Master of Commerce from Macquarie University.

Mr Lawrence Gardiner – Company Secretary

Mr Gardiner served with the Australian Army and specialised in the fields of logistic management and explosive ordnance disposal operations. In addition to his military service, Mr Gardiner also served with the Australian Federal Police (AFP), performing senior executive roles in the areas of counter terrorist first response and protective security operations. Mr Gardiner is a current member of the Australian Institute of Company Directors.

Mr David Brooking – Chief Financial Officer

Mr Brooking has been CFO of XTEK since Jan-2016 and has worked in accounting and finance for over 30 years. Prior to XTEK, Mr Brooking held Corporate Services Manager roles at Geoscape Australia and at the Australian Council for International Development. Working across different types of enterprises, he has been able to adapt to their needs by relying on the sophisticated fundamentals of his studies and the skills learnt in industry. Mr Brooking has a Certificate of Accountancy, a Bachelor of Arts and an Executive MBA.

Mr Mike Bundy – President & CEO HighCom Armor

Mr Bundy is President and Chief Executive Officer of HighCom Armor and has served in both Director and senior management roles for HighCom Armor since beginning his career with the company in 2006.

Appendix 3– Substantial shareholders and Director holdings

Figure 27 – Substantial Shareholders

Shareholder	Ordinary Shares	% of Ordinary Shares
Altor Capital	12,926,786	12.85%
Regal Funds Management	10,075,651	10.01%
UDB - Boettcher Family Trust	7,006,886	6.96%
Finexia Securities	5,500,000	5.47%
Total	35,509,323	35.29%

Source: Company

Figure 28 – Director Holdings

Directors	Ordinary Shares (,000)
Mark Stevens - Chair	0.0
Christopher Phyne	38,461.0
Chirs Fullerton	254,055.0
Mark Smethurst	72,460.0
Ben Harrison	0.0
Lawrence Gardiner	48,403.0

Source: Company

Appendix 4 – Remuneration

The remuneration is structured around the usual base salary, short term incentives (STI) and long-term incentives (LTI) based around share-based compensation.

Non-Executive Directors are remunerated by fixed annual fees, superannuation and at various times may also be remunerated at agreed hourly rates for additional time expended in the performance of authorised tasks that are in addition to their normal functions. The level of annual Directors' fees is reviewed by the Human Resources and Remuneration Committee. The maximum total for annual fees for Directors is currently set at \$500,000 p.a. as approved by security holders in Nov-19.

Senior executives may be remunerated by fixed salary and performance-based bonuses.

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Level 13, 14 Martin Place, Sydney, NSW 2000
Main +61 2 8999 9988
www.mstfinancial.com.au