

Benefitting from growth in global defence budgets

XTEK manufactures, and is commercialising, a range of proprietary products for use in the military, law enforcement, aerospace and commercial sectors. The company is a supplier of small unmanned aerial systems (SUAS) to the Australian Defence Forces and is advancing the commercialisation of its XTclave™ ballistic solutions range of body armour and helmets. It also owns XTAtlas™, real time contextual video, which can be interfaced with existing SUAS systems. XTEK commenced FY20 with a transformative acquisition of profitable US body armour and personal protective equipment manufacturer, HighCom Armor Solutions Inc, for A\$3.6m in cash and shares. HighCom gave the company a manufacturing base in the US, complementary technology and access to its network including US military and defence which has accelerated sales of the XTclave™ range in that market. XTEK has announced FY20 revenues of \$42.7m, an increase of 13% on pcp and gross profit of \$9m, up 32.5% on the prior year. In August, the company raised \$9.2m at \$0.69/share in a share placement and has just completed an oversubscribed share purchase plan (SPP) to raise to \$2.9m additional, exceeding the original \$2m target. The proceeds from the Placement and the SPP will be used to execute XTEK's international ballistic strategy and commercialisation, including increasing XTclave™ manufacturing capability in the US which will double its revenue capacity in that market.

Business model

To date, XTEK has generated most of its revenue from the sale of third party and proprietary small unmanned aerial systems (SUAS) to Australian Defence Force contracts and other defence agencies on the Australasian region. The company generated around \$8m from its long term SUAS repair and maintenance contract with the ADF in FY20 and recently secured an additional contract to deliver more SUAS units in FY21. The company also earns ongoing revenue for repair and maintenance which it undertakes at its facility in Canberra. XTEK's key support services consist of providing spare parts, training, maintenance, and repairs including installation of spare parts, electronics and composite materials of the SUAS itself. XTEK's ADF SUAS support contract runs until 2022, with multiple options to extend through to 2025. In early CY2020, XTEK secured its first order for its XTclave™ manufactured ballistic armour plates from Tote Systems Australia to be used by an Australian Specialist Law Enforcement unit. The Finnish Defence Forces have subsequently ordered \$2m in XTclave™'s light weight manufactured ballistic plates.

Recent company commentary

XTEK has reported FY20 revenues of \$42.7m, an increase of 13% on the previous corresponding period, gross profit of \$8.6m and EBITDA of \$0.8m, a 2.5-fold increase on FY19. NPAT for FY20 was \$0.3m up from \$0.17m the year before. XTEK noted that it was strongly confident that FY21 revenues would exceed \$30m, underpinned by US ballistic sales, the Finnish defence ballistics order, ongoing SUAS support and parts to the ADF.

At a significant discount to its aerospace and defence peers

We have chosen four peers, Dronesield, Orbital Engine Corporation, PTB Group and Quickstep Holdings, of a similar market size in the aerospace and defence category. These peers are trading on a median EV/revenue multiple of 3.0x which is substantially above the 1.0x EV/revenue multiple that XTE trades on. Of these peers, only Quickstep Holdings has delivered revenue growth of a similar trajectory to XTEK.

Historical earnings and ratios

Year end	Revenue (A\$m)	Gross Profit (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
06/17a	9.0	3.4	-0.39	0.06	0.2	4.0	nm	nm
06/18a	17.3	4.7	-0.30	0.14	0.4	2.3	nm	nm
06/19a	37.8	6.8	0.48	0.17	0.4	1.1	25.2	nm
06/20a	42.7	8.6	0.83	0.30	0.6	0.9	45.8	nm

Source: Company data

Aerospace & Defence

4 September 2020

Share details

ASX Code	XTE
Share price (3-Sep)	\$0.695
Market Capitalisation	\$49.1M
Shares on issue post SPP	70.64M
Net cash at 30/06/2020	\$3.1M
Free float	48.4%

Share performance (12 months)



Upside Case

- A long-term supplier to the Australian Defence Forces
- Leveraged to global defence spending which is not impacted by economic downturns
- HighCom has delivered immediate market position in the US

Downside Case

- Long lead times on defence contract decisions
- Contracts tend to be lumpy
- Shareholders may not get the upside if an early takeover emerges

Catalysts/upcoming events

- Additional significant contracts in the US
- Confirmation of sales contracts and growth

Comparable companies (Aust/NZ)

Dronesield (ASX:DRO), Orbital Engine Corporation (ASX:OEC), PTB Group (ASX:PTB), Quickstep Holdings (ASX:QHL)

Top 5 shareholders (pre SPP)

Uwe Daniel Boettcher (Chairman)	6.57%
HighCom Global Security Inc	6.03%
CS Third Nominees	4.04%
Wendy Wing Lin Lo	3.81%
Washington H Soul Pattinson	3.71%

Company contacts

Philippe Odouard +61 2 6163 5537
(Managing Director)
philippe@xtek.net

RaaS Advisory contacts

Finola Burke +61 414 354 712
finola.burke@raasgroup.com



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018



About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES

This report has been prepared and issued by RaaS Advisory Pty Ltd. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise. Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2020 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.