

Release to the Australian Securities Exchange

Market Update: Management Commentary on First Half FY2019 Results

Canberra – 28 February 2019: XTEK Limited (ASX: XTE, 'XTEK', the 'Company'), a leading defence and homeland security company, today released its Half Year Report for period ending 31 December 2018.

Key highlights

- Executing the business strategy to commercialise proprietary products by leveraging existing strategic networks and relationships
- On track to have commercial scale production capacity for XTclave™ products this calendar year, while XTclave product development continues in ballistic plates and helmets
- Engaged with selected distributors and partners in Europe and USA, while bidding in multiple tenders as prime contractor or as supplier to the prime contractor for XTclave ballistic plates
- Achieved first XTatlas™ sales and gaining momentum in both military and commercial sectors
- Well positioned to capture additional maintenance revenue following the installation of the SUAS maintenance facility in Canberra and delivery of SUAS systems and spare parts
- Achieved record half year revenue of A\$8.4m (59% growth from 1H2018) and reaffirm improved FY2019 revenue guidance of A\$20m to A\$30m, underpinned by ~A\$43m contracted revenue

XTEK Managing Director Philippe Odouard commented:

“Strong top-line growth reflects the implementation of the Company’s strategy, with focus now on leveraging existing strategic networks and relationships to deliver shareholder value. The half results are in line with our expectations and reflect the well-established seasonal trends in procurement and shift in sales mix. The construction of the XTclave facility is progressing well to produce ballistic plates and helmets and XTEK continues to invest in development of proprietary products. The Company is now on the cusp of achieving higher margin sales through repair and maintenance services. XTEK is looking forward to exciting times ahead and will continue to pursue higher margin revenue opportunities and grow our presence in key markets. We remain positive on the Company’s outlook and reaffirm the improved full year revenue guidance of between A\$20m to A\$30m.”

Operational performance

XTEK has made significant commercial progress with respect to proprietary products. XTEK has continued strategic discussions with selected parties in key markets while also continuing to invest significantly in the development of XTclave ballistic armour plates and helmets. This combined with the ongoing construction of the XTclave facility ensures XTEK will be well positioned to deliver on potential contracts this calendar year. Further, XTEK continues to explore developing manufacturing capacity in the US, which represents the largest and most valuable market globally. In addition, XTEK is proud to have achieved its first sales of XTatlas™ and continues to develop the technology, to leverage the growing interest by the military, law enforcement and commercial sectors.

Within value-added reseller products, the Company has achieved significant milestones during the period. Completing the development of the SUAS maintenance facility in Canberra, in addition to the initial delivery of WASP AE SUAS, ensures XTEK is well positioned to provide additional repairs and maintenance services. This will complement future deliveries under the existing SUAS contract and growing orders for spare SUAS parts expected in the future. XTEK continues to deliver other value-added reseller products and remains committed to continuing to grow these sales in a value accretive manner.

XTEK has been successful in selling more SUAS to Defence beyond its main contract and will continue to get a significant portion of its revenue from SUAS sales as more substantial deliveries of SUAS are shipped in the near to medium term. Such sales are the primary reason why the revenue of the Company has grown so rapidly, even though they are at relatively lower margins to traditional value-added reselling business.

Financial performance and outlook

XTEK delivered record revenue in the first half with revenue reaching A\$8.4m, representing growth of 59% from the previous half year. The revenue growth was underpinned by the initial delivery of the WASP AE SUAS to the Australian Army during the period.

For the period, gross profit increased ~3% to A\$1.8m, compared to the first half of FY2018, resulting in a gross margin of ~21%. The key factor primarily responsible for the change in gross margin was the shift in sales mix to SUAS systems for the period. The SUAS represent a relatively lower product margin than XTEK's other value added reseller products and given the larger dollar value of the contract delivered recently, this has impacted XTEK's overall gross margin. The Company expects gross margins to stabilise in the second half and improve from then on as XTEK moves toward a more balanced product sales mix with its own proprietary products delivering higher margins. Following the initial delivery of the WASP AE SUAS and the installation of the maintenance facility in Canberra, XTEK is now focused on capturing higher margin repair and maintenance revenue streams over the near to medium term.

As part of total expenses (excluding cost of goods sold), XTEK has continued to increase operating leverage with the existing team, reflected in the relatively flat employee benefit expense of ~A\$1.8m for the half year. During the period, research and development expenses increased ~39% to A\$0.7m and represents XTEK's ongoing commitment to product development on key proprietary products, with value benefits expected to flow in future years. Corporate and admin expenses increased 30% to A\$2.8m. This reflects the additional investment to establish and commercialise XTAtlas, a new XTclave facility, SUAS repair facilities and representatives to access key markets in Europe and the United States. These additional expenses have been factored in to deliver XTEK's strategy to transform the business from primarily a value added reseller into the industrialisation and commercialisation of its own market leading products.

During the half year, XTEK generated a positive operating cash inflow of A\$0.9m, representing a significant turnaround from an operating cash outflow in the previous period. As at 31 December 2018, XTEK remained free of borrowings and held A\$6.6m cash, up A\$3.8m from the previous half year.

The Company reaffirms the improved revenue guidance of A\$20m to A\$30m for the full year, and expects to achieve a net profit for the operation of the second half of the financial year. XTEK's confidence is underpinned by a current contracted revenue pipeline of ~A\$43m, with many existing orders expected to be renewed in the future, consistent with previous years.

Signed for and on behalf of XTEK Limited:



Lawrence A Gardiner
Company Secretary
28 February 2019

About XTEK Limited

XTEK Limited is a leading company in the Australian Homeland Security Market. XTEK's knowledge and expertise is focused on the delivery of protection and sustainment solutions for the government, law enforcement, military and commercial sectors.

The supply and maintenance of Small Unmanned Aerial Systems (SUAS) is a key focus for XTEK. In addition, XTEK has developed a range of new technologies which it is now commercialising for the international market. XTclave™ composite protection products and XTAtlas™ real time contextual video provide novel solutions for western military forces. For more information visit the XTEK website at www.xtek.net