

Release to the Australian Securities Exchange

XTEK announces Strategic US Acquisition, Placement and Share Purchase Plan

Wednesday 17 July 2019: XTEK Limited (ASX: XTE) ("XTEK" or "the Company"), an Australian Homeland Security market provider focused on protection and sustenance solutions, is pleased to announce it has entered into a binding agreement to acquire US market provider of body armour and personal protective equipment, HighCom Armor Solutions, Inc ("HighCom").

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)
- Purchase consideration comprise of 4.0m XTEK shares, A\$1.8m cash consideration, and future earnout based on HighCom's performance in CY2019
- 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
- SPP to raise up to A\$1.0m will follow the placement, with eligible shareholders offered the opportunity to acquire additional new shares
- Proceeds of the placement and SPP will fund the acquisition and other growth opportunities

Philippe Odouard, XTEK Managing Director, commented:

"This is a transformational transaction and 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 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 Overview

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.

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).¹

Strategic Rationale

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.

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.

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."

Key Terms

XTEK has agreed to acquire HighCom for a purchase consideration worth ~A\$3.6m (pre future earnout payment), as outlined below:

- 4,000,000 XTEK shares worth ~A\$1.8m based on offer price of A\$0.45 per XTEK share
- A\$1.8m cash consideration payable
- Earnout (on the following terms):
 - 5 XTEK shares per US\$ above HighCom's adjusted CY2019 EBITDA of US\$905,000
 - Adjusted EBITDA is based on HighCom sales (which excludes any sales from XTEK products) and excludes any non-cash and non-recurring items

¹ HighCom summary financials converted at USD:AUD 1.41

Completion is expected to take place in September 2019 and remains subject to the necessary regulatory and HighCom shareholder approvals. Further details on HighCom, XTEK's strategic rationale and key terms are outlined in the attached investor presentation, which forms part of this overall announcement.

Oversubscribed Placement

XTEK is pleased to advise that it has successfully completed a A\$2.7m placement. The placement was oversubscribed, with strong demand from existing shareholders and new sophisticated investors.

The placement comprises the issue of 6,053,984 XTEK shares, at an offer price of A\$0.45 per share. The placement will be undertaken in a single tranche within the Company's existing placement capacity under ASX Listing Rule 7.1 (6,052,151) and 7.1A (4,034,767).

Settlement of the placement is scheduled to occur on 23 July 2019, with the placement shares scheduled to be allotted through the ASX and will commence trading on 24 July 2019. Altor Advisory Partners Pty Ltd acted as lead manager to the placement.

XTEK Share Purchase Plan

A Share Purchase Plan (SPP), which is not underwritten, will be targeting to raise up to approximately A\$1.0m at A\$0.45 per share. XTEK shareholders whose details appear on the Company's share register as at 5pm (AEST), Tuesday 16 July 2019 ("**Record Date**") with a registered address in Australia and / or New Zealand, will be eligible to participate in the SPP, up to a maximum A\$15,000 investment.

The amount raised through the SPP remains subject to the Company's absolute discretion to accept oversubscriptions and to scale back applications. XTEK's Board and Management have confirmed their intention to participate up to the maximum available investment in the SPP.

The proposed timetable for the SPP is as follows:

Key Dates	Date	SPP Activity
Record Date	Tuesday 16 July 2019	Date for deciding Eligible Security Holders
Announcement Date	Wednesday 17 July 2019	SPP is announced to the market
Opening Date	Monday 22 July 2019	SPP opens; Offer Document dispatched
Closing Date	Monday 5 August 2019	SPP closes at 5pm (AEST) on this date
Allotment Date	Friday 9 August 2019	Securities to be issued under SPP are allotted
Dispatch Date	Monday 12 August 2019	Holding statements dispatched
Quotation Date	Monday 12 August 2019	Date which new securities are traded on ASX

New shares issued under the placement and SPP will rank equally with existing XTEK ordinary shares. The proceeds from the placement and the SPP will fund the acquisition of HighCom, expansion into the US and commercialisation of its proprietary technologies in key markets.

Further capital raising details including the indicative timetable of the placement and the SPP are outlined in the attached investor presentation.

Signed for and on behalf of XTEK Limited:



Lawrence A Gardiner
Company Secretary
17 July 2019

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About XTEK Limited

XTEK Limited provides high-quality products to deliver tailored solutions to the government, law enforcement, military, space and commercial sectors. XTEK is focused on developing and commercialising its proprietary technologies by leveraging its established distribution network.

These technologies include XTclave™ advanced composite solutions and XTatlas™ real time contextual video, which provide unique solutions for western military forces and other government agencies. In addition, the supply and maintenance of Small Unmanned Aerial Systems (SUAS) remains a focus for XTEK.

For more information visit the XTEK website at www.xtek.net

About HighCom Armor Solutions, Inc

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 National Institute of Justice, which represents the highest compliance standard in the industry.



XTEK

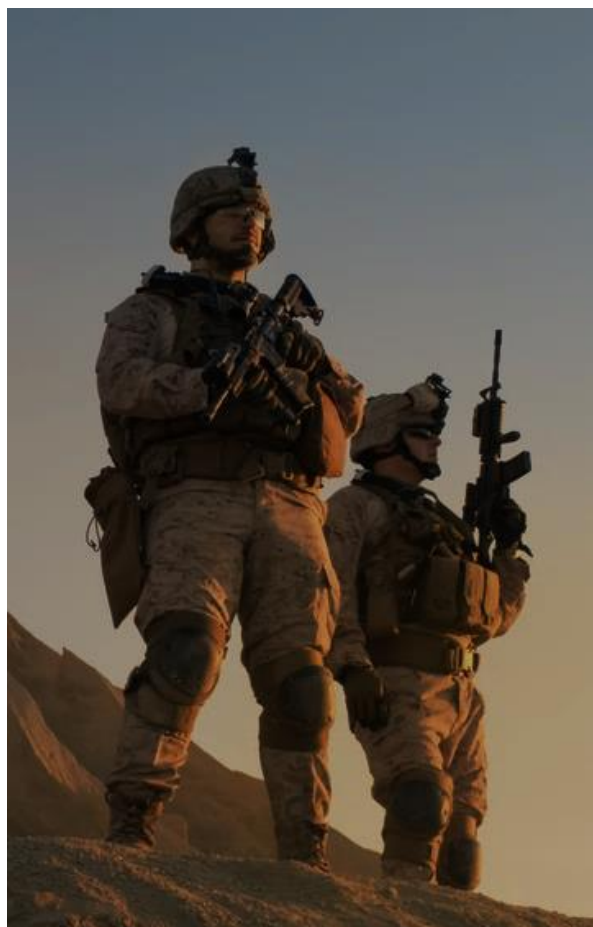
STRATEGIC ACQUISITION & CAPITAL RAISING

July 2019

www.XTEK.net | ASX: XTE

EXECUTIVE SUMMARY

XTEK has signed a binding agreement to acquire HighCom Armor Solutions (HighCom), transforming XTEK into a leading ballistic armour manufacturer, positioned to capitalise on significant growth opportunities



Attractive acquisition

HighCom is a successful and profitable provider of body armour and personal protective equipment in the US market

Favourable terms

Consideration of ~A\$3.6m¹ represents a transaction EV/EBITDA multiple of 2.6x²

Strong rationale

Highly complementary fit with XTEK and accelerates commercialisation of XTclave™ products in the US market

Accretive transaction

Earnings accretive transaction with potential synergies and increased earning contribution expected from XTEK's proprietary products

Growth upside

Attractive growth opportunities underpinned by customer, distribution and geographic expansion

Fully funded

A\$2.7m placement and SPP to raise up to A\$1.0m – to fund acquisition and other growth opportunities

1. Based on purchase consideration of 4m XTEK shares (at A\$0.45 per XTEK share) and A\$1.8m cash – excludes earnout (refer to slide 4 for additional information)

2. Based on HighCom historical (calendar year) CY18A Adjusted EBITDA of A\$1.4m, based on USDAUD: 1.41 – note: EV/EBITDA multiple excludes synergies

HIGHCOM OVERVIEW

HighCom is a successful and profitable provider of proprietary body armour and personal protective equipment focused on the US market

- **High quality, cost efficient and experienced** US producer of advanced ballistic armour for over 20 years
- **Existing products with a proven track record of reliability** (i.e. >1m armour products deployed without recall or failure)
- **Established nationwide network** with products reaching major government and law enforcement agencies
- **Key client relationships built over many years**
- Led by an **experienced management team**, to be retained by XTEK post-acquisition
- Growth opportunities underpinned by **increasing unmet demand in the lucrative US market**

	CY17A ^{1,2}	CY18A ^{1,2}
Revenue	A\$8.6m	A\$10.5m
Gross profit	A\$3.0m	A\$4.2m
<i>Gross margin</i>	35%	40%
EBITDA	A\$0.4m	A\$1.4m
<i>EBITDA margin</i>	4%	13%
Net income	A\$0.1m	A\$1.3m



1. Key financials based on USDAUD: 1.41

2. Key HighCom financials based on HighCom Armor Solutions results (adjusted for one off non-recurring items) for the calendar year January to December

KEY ACQUISITION TERMS

Acquisition consideration of ~A\$3.6m¹ plus earnout – with completion expected to take place in September 2019²

Purchase consideration



XTEK
Shares

4.0m



Cash
Consideration

A\$1.8m



Earnout
(additional XTEK shares above CY19F
adj. EBITDA³)

5 shares / US\$

1. Based on purchase consideration of 4m XTEK shares (at A\$0.45 per XTEK share); A\$1.8m cash – excludes earnout

2. Completion is expected to take place in September 2019 and remains subject to the necessary regulatory and HighCom shareholder approvals

3. Earnout paid in 5 XTEK shares for every US\$ above adjusted EBITDA of US\$905k. Adjusted EBITDA excludes non-cash and non-recurring items, and is based on HighCom products only (excludes XTEK's product sales)

STRATEGIC RATIONALE

The acquisition of HighCom supports XTEK's strategy to grow sales of proprietary products and accelerate the commercialisation of XTclave™ products into key global markets



**Increases ballistic
armour product focus**

**Proprietary personal
protective equipment**

- ✓ Addition of high margin armour products to XTEK's existing proprietary product portfolio
- ✓ Enhanced earnings, cash flow and profitability
- ✓ Additional market knowledge and technical expertise



**Expands
distribution network**

US market

- ✓ Market penetration into the lucrative US homeland security and defence market, in addition to European and Australian networks
- ✓ Expand customer base and sales channels, with enhanced and broader product offering



**Accelerates XTclave™
commercialisation**

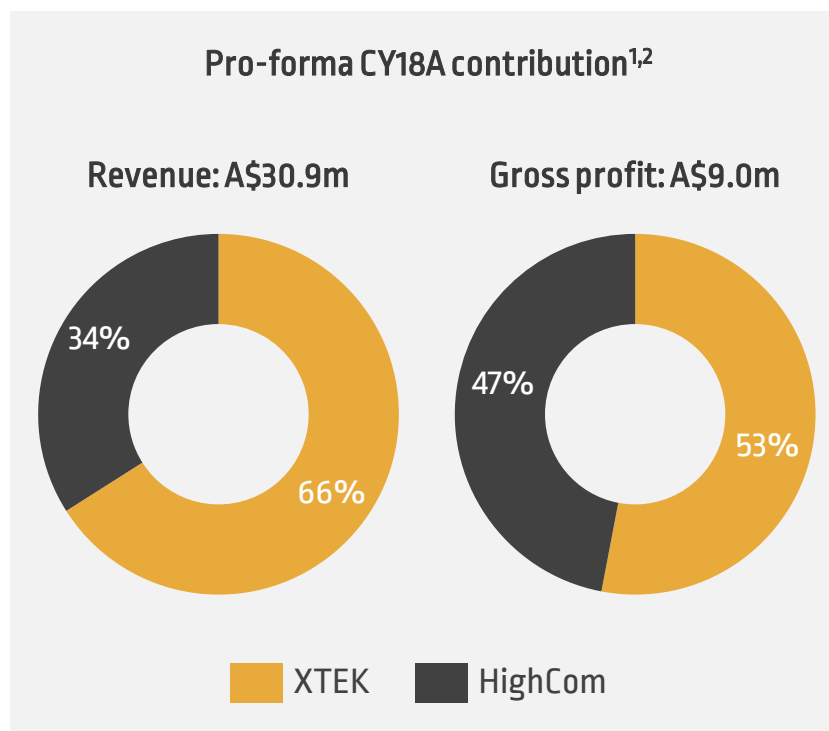
**Production
capability**

- ✓ Complementary combination of existing manufacturing and production capability with XTEK's XTclave™ proprietary technology and high end products
- ✓ Implement enhancements to HighCom's existing ballistic products with XTclave™ technology

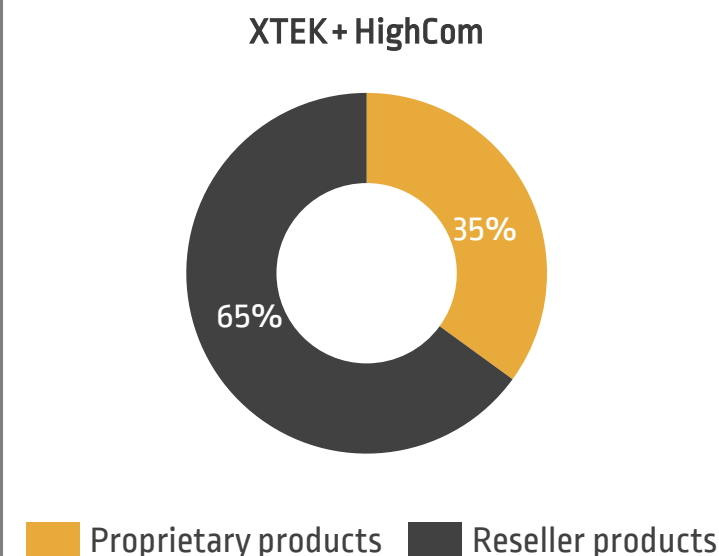
FINANCIAL PROFILE

The acquisition of HighCom is expected to be earnings accretive¹, underpinned by increased focus on high margin proprietary products

- ✓ Increased revenue
- ✓ Diversified revenue
- ✓ Increased margins



Pro-forma CY18A revenue mix [by products]^{1,2}



The transaction enhances XTEK financially, with a growing contribution from the higher margin proprietary products resulting in a sustainable increase in margins and earnings

1. Pro-forma financial analysis based on simple pro rata combination of historical financials of XTEK and HighCom Armor Solutions for full calendar year CY18A (based on US\$AUD: 1.41)
 2. Pro-forma financial analysis excludes synergies and amortisation

GROWTH OPPORTUNITIES

Post acquisition, XTEK is positioned to execute on growth opportunities



**Access to US
defence market**

XTclave™ products
expected to be **highly
competitive in US
Defense market**



**Increased
helmet sales**

**North American market
worth ~US\$0.5bn p.a.¹
with further upside**



**Cross-selling
opportunities**

Opportunity to
offer XTEK's **entire
range of proprietary
products**



**Referrals from
existing contracts**

**Leverage goodwill to
drive growth in new
clients, markets and
product sales**



**Global geographic
expansion**

Leverage US
commercialisation to
**target global
opportunities**

The transaction enables XTEK to unlock significant pathways for future growth

1. Global Advanced Combat Helmet Market Revenue for North America in 2015 (source: TMR Analysis, 2017)

OVERVIEW OF CAPITAL RAISING

XTEK successfully raised A\$2.7m via a placement and intends to raise up to A\$1.0m via a share purchase plan

Placement

- A\$2.7m placement to sophisticated investors
- New shares to be issued at an offer price of A\$0.45 per share
- Utilises XTEK's existing placement capacity
- New shares under Placement will be fully paid and rank equally with existing XTEK shares

Share purchase plan

- Up to A\$1.0m SPP to eligible shareholders on the same terms as the Placement
- Amount raised through the SPP remains subject to XTEK's discretion
- Board and management have stated their intention to participate up to the maximum available investment in the SPP

Use of funds

- 1 Acquisition of HighCom
- 2 Commercial development and growth into the US market
- 3 Commercialisation of XTatlas™ and XTclave™ technologies
- 4 General working capital

Indicative capital raising timetable¹

Trading halt	Mon, 15 July 2019
Record date for SPP	5pm AEST, Tue, 16 July 2019
Acquisition and capital raising announced / XTEK resumes trading	Wed, 17 July 2019
Dispatch SPP booklet to shareholders / SPP offer opens	Mon, 22 July 2019
Settlement of Placement	Tue, 23 July 2019
SPP closing date	Mon, 5 Aug 2019
SPP allotment	Fri, 9 Aug 2019
Commencement of trading of new shares on ASX	Mon, 12 Aug 2019

1. The timetable is indicative only and is subject to change

OPERATIONAL STRATEGY

The acquisition of HighCom is aligned with XTEK's strategy of commercialising proprietary products in key global markets and leveraging strategic networks and relationships



- ✓ Follows XTEK's ongoing **selective analysis of a range of strategic M&A opportunities globally**
- ✓ Broader product range with increased focus on **growing high-margin proprietary products**
- ✓ Access to the **lucrative and high growth US market**
- ✓ Financial stability underpinned by the acquisition of a **cashflow generative and profitable business**
- ✓ **De-risked and resilient revenue mix** from a customer, geographic and channel perspective
- ✓ **Strategic and complementary acquisition** that enables the acceleration of XTclave™ commercialisation
- ✓ Significant upside potential to leverage acquisition to **target other value-accretive opportunities globally**

KEY ACTIVITIES AND PRODUCT FOCUS

XTEK is focused on being the supplier of choice for a range of products and support services to the defence, law enforcement and government sectors globally

Proprietary products

Reseller products and services



Ballistic products and technology

XTclave™ technology enables market leading products - ballistic plates, helmets and more; additional HighCom body armour products



Intelligence and surveillance

A platform technology designed for existing UAS, providing real time intelligence from low cost UAS Full Motion Videos (FMVs)



Additional defence related products

Product distributor and service supplier; exclusive AeroVironment distributor¹; exclusive Heckler & Koch value-added reseller²



XTclave™ products

HighCom products



XTatlas™

Focused on SUAS sales and aftermarket support and leveraging distribution networks

1. Exclusive distributor in Australia and New Zealand for SUAS products
2. Exclusive value-added reseller in Australia for weapon systems

XTclave™ PRODUCTS

Innovative design, advanced materials and state-of-the-art process enables XTEK to deliver a range of breakthrough, market-leading performance and lightweight XTclave™ products with access to large markets

Ballistic armour products

XTEK key focus is on developing high performance, lightweight ballistic armour products including plates, helmets and armour for large scale assets



Armour plates



Helmet shells



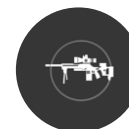
Platform armour

Global Armour Materials Market

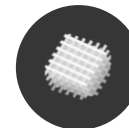
US\$12.1bn by 2022

Advanced composite solutions

Product enhancement enable lightweight, customised composite solutions to be used across a range of products and explore other significant market opportunities



Lightweight systems



Carbon products



Space satellite and launcher systems

Global Advanced Composites Market

US\$41bn by 2024

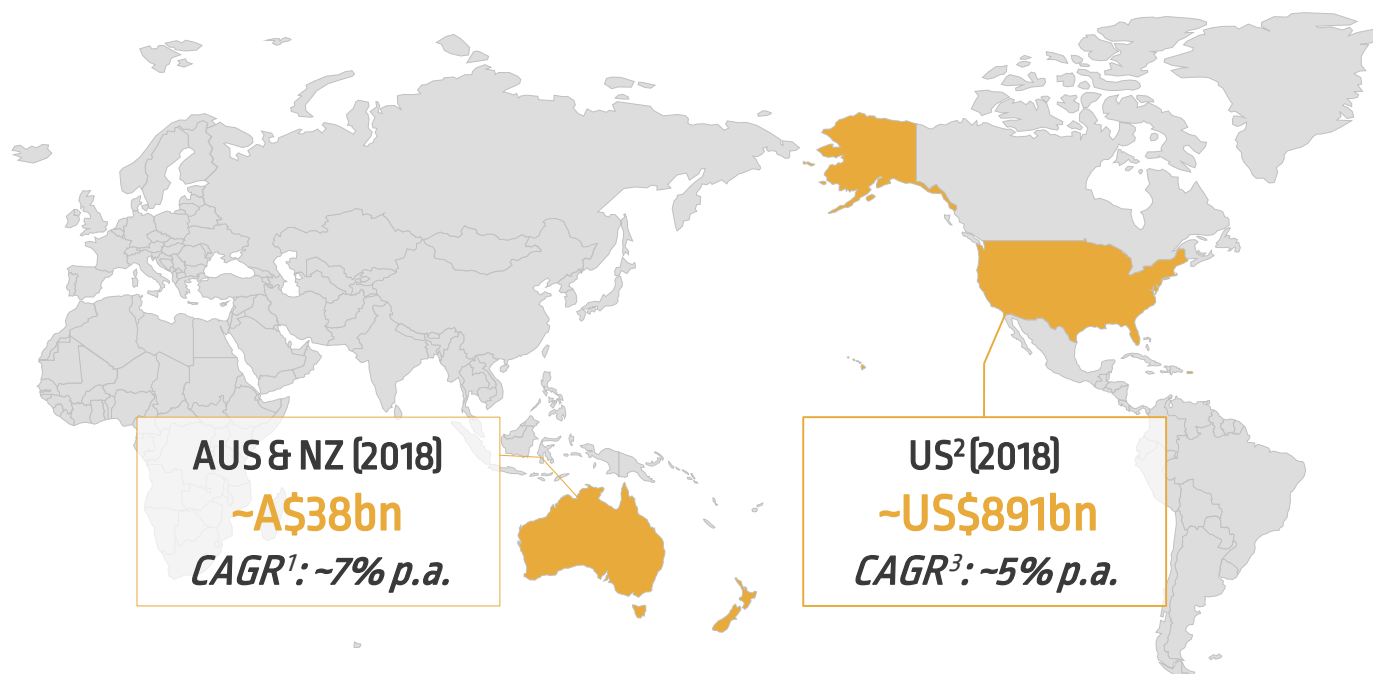
Source: Markets and Markets, Armor Materials Market [2018]; Grand View Research Inc., Advanced Composites Market Size Worth [2018];

1. Ballistics and Armour products are XTEK's current focus and a minimum viable product (MVP); this will allow the Company to validate learning and gain feedback for future product development

FAVOURABLE DEFENCE SECTOR THEMES

XTEK is well positioned to capitalise on favourable domestic and international trends in defence spending

Defence and military expenditure in key markets



Underpinned by the highest level of global military expenditure in over 25 years, estimated to be more than **US\$1.7tn** in 2017 (~2.2% of global GDP)

Source: Australian Government Department of Defence; Australian Defence 2018; SIPRI 2018; NZ Government Budget 2018; The balance 2019; Trading Economics 2018; Defense News 2019

1. Australian compound annual growth rate, measured from 2018 to 2026
2. Includes base budget for the Department of Defense; overseas contingency operations for DoD; other (including Department of Veterans Affairs, Homeland Security and FBI)
3. US compound annual growth rate, measured from 2018 to 2020

KEY CATALYSTS

XTEK is well positioned to execute its operational strategy

Summary

- Develop XTclave™ production capabilities and receive first significant orders to fill factory capacity
- Closing significant sales and distributors for XTatlas™ software
- Complete further SUAS deliveries and associated maintenance services
- Win further defence contracts and additional purchase orders
- Commercialisation of XTEK proprietary products for the lucrative US market
- Continued development of XTclave™ products as customised advanced composite solutions to explore significant market opportunities

XTEK reconfirms FY19 revenue guidance of A\$30m to A\$35m, representing significant growth from previous year

KEY INVESTMENT HIGHLIGHTS

XTEK is accelerating the commercialisation of high-margin proprietary products in key markets and is underpinned by favourable market sentiment within the domestic and global defence industry

Favourable defence market sentiment globally	▪ Western defence budget increasing to ~2% of GDP, while Australian defence budget increasing to >A\$50bn with focus on local content
Accelerate XTEK's commercialisation momentum	▪ XTclave™ commercialisation accelerated into the lucrative US market ▪ Enhances focus on proprietary products in target markets globally
Profitable reseller business with growth opportunities	▪ Established ADF supplier, contracted to for SUAS fleet / support services ▪ Supply leading brands to growing Australian client base / sales channels
Well positioned underpinned by strong financial outlook	▪ Strong operational performance, financial position and contracted revenue enables the assessment of value accretive opportunities



APPENDIX ADDITIONAL INFORMATION

CORPORATE OVERVIEW

Trading information

Share price [12 Jul 2019]	A\$0.460
No of shares ¹	40.6m
Market capitalisation	A\$18.7m
Net debt / [net cash] ²	[A\$6.6m]
Enterprise value	A\$12.1m

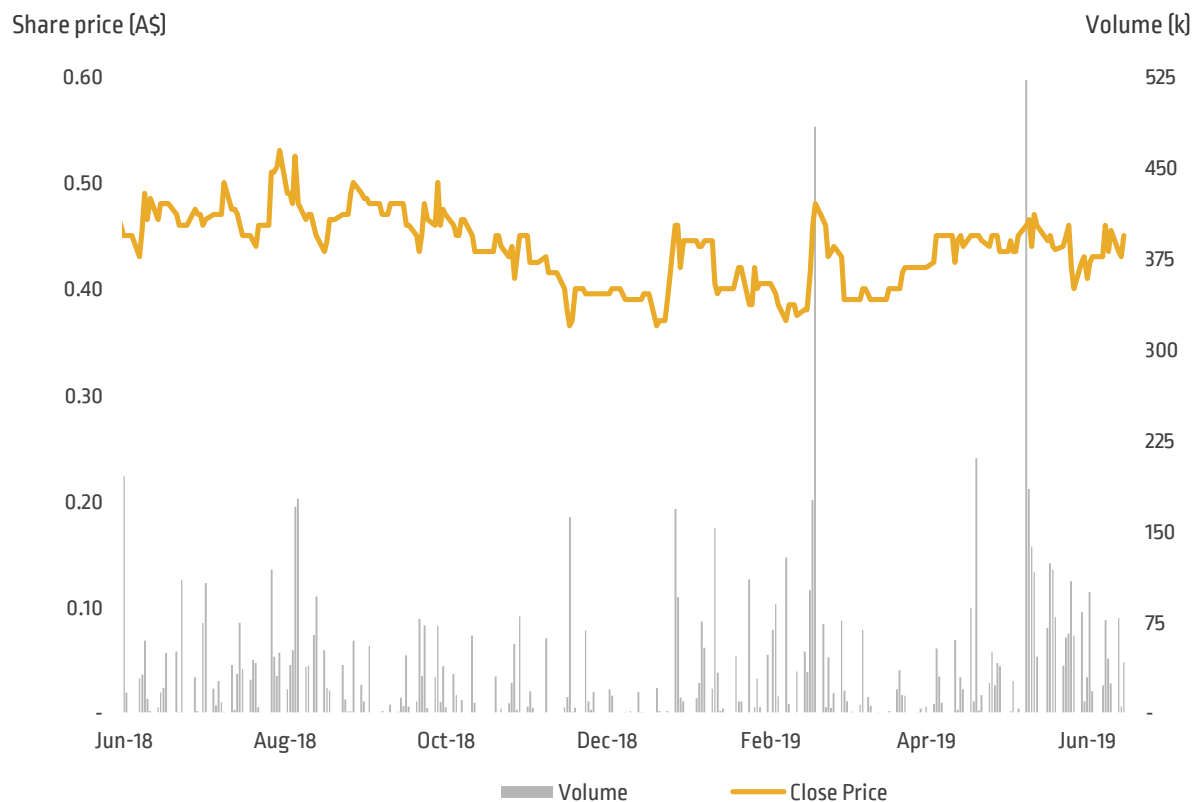
XTEK Board

Uwe Boettcher	Non-Executive Chairman
Philippe Odouard	Managing Director
Robert Quodling	Executive Director
Ivan Slavich	Non-Executive Director
Chris Fullerton	Non-Executive Director

Major shareholders¹

Uwe Boettcher	13.2%
Mrs Wendy Wing Lin Lo	6.2%
Fairlane Management	5.2%

LTM share price performance



Source: IRESS, company information

- Does not incorporate XTEK shares to be issued to HighCom shareholders as part of transaction
- Cash as at 31 Dec 2018

XTclave™ BODY ARMOUR OVERVIEW

XTEK is focused on producing the world's lightest and strongest body armour for military, defence and law enforcement agencies, using its XTclave™ patented manufacturing technology



XTclave™ ballistic armour plates

- ✓ A range of leading products offering excellent ballistic protection: some are **up to 30% lighter**; and some provide **increased product life and added buoyancy**
- ✓ **Validation** from numerous international defence clients
- ✓ **Achieved domestic and international orders for SAPI¹ plates**



1. SAPI: Small Arms Protective Insert



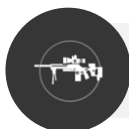
XTclave™ helmet shells

- ✓ Only composite helmet that can **stop common AK-47 bullets**
- ✓ **US Department of Defense funded testing program for Ballistic Helmets using XTclave™**
- ✓ **Finalising development in Adelaide facility**



XTclave™ COMPOSITES OVERVIEW

XTEK's advanced composite solutions provide an opportunity to utilise proprietary technology in industries both within and outside defence

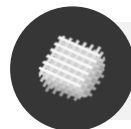


Lightweight systems

- Includes using XTclave™ to produce lightweight, high performing sniper rifle parts for XTEK's Tac. 2 for the Australian Defence and Police forces



XTEK produced components



Carbon products

- Using XTEK's patented consolidation technology, produce high fibre volume fraction composites



Composite materials



Metals



Polymers



Space satellite and launcher systems

- Leveraging technical advantages, including achieving a higher specific strength to weight ratio
- Unique advantage of reducing plastic outgassing due to ultra high process pressure, often considered a limiting factor for lightweight plastics use in space



XTclave™ VALIDATION AND PURCHASE PROCESS

XTEK has a well progressed XTclave™ pipeline with more than 15 potential clients in various validation stages, which represent final stages to significant contracts

XTEK Pathway to Value

Ongoing

10 to 15 clients

2 clients

Initial testing

2 to 3 weeks

Small number of plates utilised for initial testing and experimentation for assessment

Statistical validation

3 to 4 months

Purchase of ~20 to 30 plates for statistical validation of initial testing phase

Quality validation

6 to 8 months

~100 plates purchased for final testing stage and approval process

Large orders

Large purchase order once all validation testing complete (i.e. ~1,000 to ~50,000 plates per order)

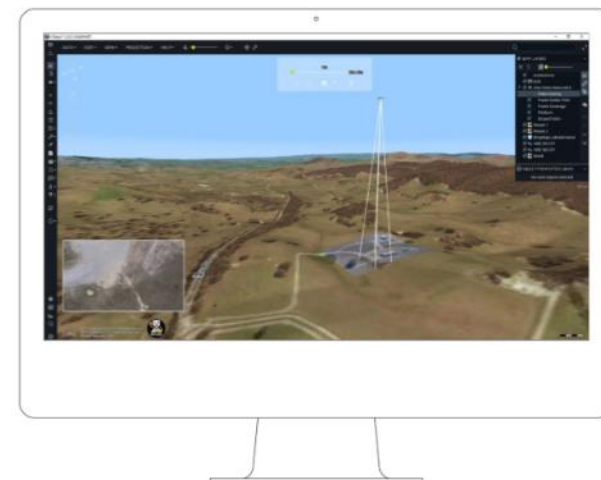
Extensive customer testing and validation cycles followed by large contracts with strong margins

XTatlas™ REAL-TIME SITUATIONAL AWARENESS

Targeting near term commercial discussions to achieve further sales in global markets

XTatlas™ is a SUAS software application that provides real time intelligence from low cost UAS Full Motion Videos (FMVs)

- ✓ **Achieved first commercial sales** to the ADF for evaluation purposes and recently achieved first international sale
- ✓ **Significant upside potential as XTatlas™ can be retrofitted** to existing UAS, with AeroVironment having delivered more than 25,000 UAS globally
- ✓ Provide **near real time 3D modelling and mapping at a fraction of the cost** of similar data from large UAV systems
- ✓ **Strong relationship with AeroVironment** and significant **global interest** from users and suppliers
- ✓ **Continual product development:** recent upgrade for SARBI¹ application
- ✓ **Potential for diverse uses** including law enforcement, search and rescue, and disaster response and asset inspection



Global Aerial Imagery market (2018)



Source: Geobuiz "Geospatial Industry Outlook & Readiness Index" 2018 edition, Geospatial Media & Communications; AeroVironment

1. SARBI (Sensor and Radiation Broad-band Interface) is an application allowing accurate mapping from chemical, biological, nuclear and radiological sources

SUAS: SMALL UNMANNED AERIAL SYSTEMS

Long term contract to supply SUAS to the ADF ensures XTEK is favourably positioned for future growth opportunities



- XTEK has an **exclusive agreement with AeroEnvironment**, the leading SUAS supplier globally, for Australia and New Zealand
- Completed first delivery of WASP AE SUAS products to the ADF, with the **potential to expand beyond existing supply contract**
- Opportunity for XTEK to **leverage its existing distribution channels** when tendering for future contracts (i.e. SUAS / other products)

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