

Date	6 th March 2019
Sector	Defence
Rating	Not Rated
Analyst	Erik Bergseng
Share Price Close	\$0.385

Consensus Target	\$0.95
Consensus	1 Firm

Trading Data	
52-Week Range	0.345-0.685
Ordinary Shares Outstanding	40,579,906
Market Capitalisation (undiluted, \$m)	15.6m
Enterprise Value (\$m)	9.68m
Avg Daily Trading Volume (30 days)	34,801

P/L (FY End, \$m)	15/16	16/17	17/18
Revenue	3.36	9.03	17.31
EBITDA	-1.43	0.19	0.23
Net Income	-1.59	0.06	0.14

Bal. Sheet (FY End, \$m)	15/16	16/17	17/18
Cash & ST Investments	0.55	2.82	5.94
Total Debt	0.00	0.00	0.00
Current Assets	2.18	6.93	13.74
Total Assets	2.53	7.33	14.35
Current Liabilities	0.66	1.56	6.62
Total Liabilities	0.79	1.72	6.78
S.H. Equity	1.74	5.61	7.57

XTEK Limited (XTE)

“High growth through the commercialisation of proprietary technologies and a diminished risk profile from existing contracted revenues...”

Important Disclaimer: This research has been sponsored by the company described in this report which allows us to provide coverage to investors free of charge. To read more about our policy on this, please view the information on the final page of this report.

XTEK Limited (XTE.AX, XTEK) is an established defence technology and equipment supplier based in Canberra. XTEK provides a suite of value-add reseller and proprietary products to address the current and emerging needs of military and enforcement agencies globally. Investors can conceptualise XTEK as comprising of 4 separate business units:

- **XTCLAVE**, a technology that allows for the manufacture of new-generation body armour, helmets and other composites that are lighter than existing and comparative old-generation solutions.
- **XTATLAS**, a technology that allows for the timely creation of geospatial data from Full Motion Video (FMV) for surveillance.
- **Small Unmanned Aerial Systems (SUAS)**, including the enhancement and maintenance of drones sold by AeroVironment (NASDAQ:AVAV).
- **Other miscellaneous defence related products** (tactical solutions such as sniper rifles [XTEK Tac2], Explosive Ordnance Disposal (EOD) and forensic equipment).



Source: XTEK Presentation October 2018¹

¹ <https://www.asx.com.au/asxpdf/20181018/pdf/43zcmx93cf25f3.pdf>



Price Performance	1 M	6 M	12 M
Absolute Return	-13.5%	-17.2%	-37.9%
Benchmark Return	4.3%	-9.6%	-15.7%
Excess Return	-17.8%	-7.6%	-22.2%

Cashflow (FY End, \$m)	15/16	16/17	17/18
Operating CF	-1.92	-1.41	1.82
Investing CF	-0.01	-0.13	-0.29
Financing CF	1.59	3.81	1.59
Free Cashflow	-1.57	0.01	-0.07

Ratios (FY End)	15/16	16/17	17/18
P/E (x)	-5.6	309.0	129.1
P/B (x)	5.1	3.4	2.4
EV / EBITDA (x)	-5.8	82.8	51.9
Dividend Yield (%)	0	0	0
FCF Yield	-17.7%	0.0%	-0.4%

Revenue Streams

Underpinning the bulk of the Company's existing revenue streams are the supply and enhancement of AeroVironment AE WASPs, and their future expected maintenance. On the 1st July 2017, XTEK signed a contract with the ADF that enables XTEK to earn a large percentage of a A\$101m government budget for SUAS over 7 years. Approximately \$42m has been designated for acquisition of SUAS with ~\$40m going towards support and maintenance over a 5 to 7-year period.²³

Related to this is the contract for \$6.3m of spare SUAS parts from the Australian Defence Force (ADF) that was recently announced on the 22nd of November 2018.⁴ The Company expects that XTEK will remain the preferred party for future scheduled maintenance work by the ADF as XTEK are the only Company outside the United States that has facilities capable of servicing and maintaining AeroVironment WASP AE drones.⁵

XTCLAVE and XTATLAS are both 100% owned proprietary technologies that represent significant growth opportunities for the Company. The Body Armour and Geospatial industries represent US\$2bn and US\$10bn industries respectively. XTEK has invested heavily in its R&D efforts for these products, with A\$1.2m sunk into R&D last year alone.⁶ This has been increased to \$0.7m for H1 FY2019 which represents a 16.7% higher annual run-rate⁷ Both XTCLAVE and XTATLAS are expected to begin commercialisation in the near term, with first purchase orders for XTATLAS already being received in October 2018. At the time of this report, the Company expects to achieve between A\$20-A\$30m in revenues for FY18/19 (according to the H1 FY2019 report), with the timing of certain items being the expected cause of variability. Contracted revenue stands at A\$43m as of H1 FY2019.

Our View

We believe that XTEK warrants further investigation by investors with a high tolerance for risk that are seeking growth opportunities. XTEK has viable growth potential via the commercialisation of their 100% owned proprietary products XTCLAVE and XTATLAS. However, we note that the Company has also reported two years of net profit after tax for FY2016/2017 and FY2017/2018⁸. Consequently, we believe that XTEK also has a relatively reduced risk profile in comparison to other listed small

² <https://www.asx.com.au/asxpdf/20170601/pdf/43jndvx49vv280.pdf>

³ <https://www.asx.com.au/asxpdf/20170725/pdf/43kvpmsy6zt2rf.pdf>

⁴ <https://www.asx.com.au/asxpdf/20181122/pdf/440jdOrgndrvy5.pdf>

⁵ <https://www.asx.com.au/asxpdf/20181122/pdf/440jdOrgndrvy5.pdf>

⁶ <https://www.asx.com.au/asxpdf/20180831/pdf/43xxjqpmj4jnmx.pdf>

⁷ <https://www.asx.com.au/asxpdf/20190228/pdf/4432r29jqr575k.pdf>

⁸ <https://www.asx.com.au/asxpdf/20180831/pdf/43xxgv7bxzgxgx.pdf>

growth companies of similar market capitalisations that have a history of negative earnings.

We believe that the recent spare parts contract win on the 22nd November 2018 is validation that XTEK is also likely performing to the ADF's expectations. This contract win combined with their existing repair facilities situated in Canberra means XTEK is likely to maintain the repair component of the \$101m SUAS budget that was announced by the Department of Defence on the 1st June 2017. Consequently, these revenue streams will likely continue to underpin XTEK's relatively stronger earnings position. XTEK have also flagged the possibility of acquiring domestic small, profitable and innovative technology companies,⁹ which we also view a positive to XTEK's longer-term earnings potential if done prudently.

Small Unmanned Aerial Systems (SUAS)

Description

XTEK is a supplier of WASP AE drones from AeroVironment (NASDAQ: AVAV) a \$US2bn company that is the world's largest non-commercial drone manufacturer. These drones can operate autonomously allowing for persistent ISRT (Intelligence, Surveillance, Reconnaissance and Targeting data). These drones are hand launched, all environmental and can remain quiet to avoid detection.¹⁰ XTEK enhance these drones from original equipment manufacturers (OEM) such as AeroVironment by adding applications such as XTEK's XTATLAS.



Image: An AeroVironment Wasp AE being launched,

Source: <http://www.australiandefence.com.au/news/XTEK-secures-contract-for-army-suas-capability>

⁹ <https://www.asx.com.au/asxpdf/20181018/pdf/43zcmx93cf25f3.pdf>

¹⁰ https://www.xtek.net/sites/drupal-7-58.dd/files/Wasp_Datasheet_2017_Web_v1.pdf

Profit margins

The delivery of these OEM products by XTEK result in relatively low profit margins. We believe that this, combined with the heavy R&D investment of ~\$1.4m (expensed), explains the relatively low profit margins for XTEK as a group for FY17/18 (FCF Yield: -0.37%, ROA: 0.56%). However, the enhancement to, maintenance and servicing of these drones as it is required should attract higher profit margins in future.¹¹ For reasons already discussed above we believe that it is likely that XTEK will remain the beneficiary of the servicing requirements of this SUAS fleet for the ADF. The resulting revenue streams from this contract are estimated to be up to ~A\$6-7m a year over the next 5-7 years.

XTEK have reported A\$8.4m of revenue for H1 FY2019 (59% PCP growth) and has reaffirmed revenue guidance of A\$20-\$30m for the 2019 financial year.¹² The Company has also noted the reduction of gross profit of 21% for H1 FY2019 (down from 32.3% PCP) to simply be a consequence of the delivery of a large revenue and low margin component of the SUAS contract.

XTCLAVE

How XTCLAVE works and its applications

XTCLAVE is a Composite Consolidation Technology (CCT) that is 100% owned by XTEK. It works through the “application of significant isostatic pressure which is applied to the article being manufactured within the processing chamber by a circulating liquid medium that transfers heat extremely efficiently.”¹³ This technology provides the Company with the means to produce lighter ballistic products such as plates and helmets for military and enforcement agencies.

XTCLAVE could also allow for the possibility of manufacturing carbon fibre composite components for the aerospace and aviation industries. One such example of this would be creating a lightweight helicopter seat using XTCLAVE that protects the pilot from small arms fire, which could result in greater fuel efficiency and mobility.

XTCLAVE is currently restricted to creating relatively smaller parts and components as the internal capacity of the machine is shaped as a cylinder that is 3m x 0.5m. However, XTCLAVE is capable of producing very complex shapes and sizes compared to autoclave machines.

¹¹ <https://www.asx.com.au/asxpdf/20190228/pdf/4432r29jqr575k.pdf>

¹² <https://www.asx.com.au/asxpdf/20190228/pdf/4432r29jqr575k.pdf>

¹³ <https://www.asx.com.au/asxpdf/20121004/pdf/4295gtc69r67hf.pdf>

XTEK's TAC2 sniper rifle which the Company considers to be one the most advanced sniper rifles in the world¹⁴ has components which are manufactured using XTCLAVE.

Currently, most carbon composite technology results in a product that is comprised of between 60-68% carbon fibre volume and 32-40% resin volume¹⁵. XTEK believes that its XTCLAVE machine can produce high fibre content of 75%+¹⁶ which results in ~25% resin volume. This reduction of resin results in lighter products that are better suited for the Aerospace industry. However, it is the significant isostatic pressure and temperature in combination with thermoplastic based systems that allows XTCLAVE to produce enhanced ballistic protection products.¹⁷



Image: New generation XTCLAVE machine

Source: www.XTEK.net

Weight reduction properties and the applicable benefits

The global body armour market was estimated to be worth ~US\$1.9bn in 2017, and this is expected to grow to US\$3bn by 2025.¹⁸ One of the underlying motivations for defence authorities globally to modernise and procure new-generation protective technologies has been the development of lightweight ballistic protection materials.¹⁹ This modernisation is occurring because military personnel are often

¹⁴ <https://www.xtek.net/technology/xtek%20tac2>

¹⁵ <https://www.compositesaustralia.com.au/wp-content/uploads/2011/12/Composite-Fibre-Volume-and-Weight-Ratios2.pdf>

¹⁶ <https://www.xtek.net/technology/xtclave>

¹⁷ <https://www.army-technology.com/news/newsxtek-to-develop-advanced-hard-armor-plate-solutions-for-us-army/>

¹⁸ <https://www.grandviewresearch.com/press-release/global-body-armor-market>

¹⁹ <https://www.reportlinker.com/p02719975/The-Global-Body-Armor-and-Personal-Protection-Market-Major-Programs-Market-Profile.html>

overburdened with the excessive weights which can, in turn, affect their infield performance.

The importance of weight minimisation in the military is well understood, and published literature has concluded that a reduction in weight results in increased performance in the field.²⁰ A soldier being overburdened may not only fatigue faster and reduce their overall agility, but it may also affect other aspects of their mobility. For example, it may affect their level of buoyancy when crossing through a body of water. It may also result in greater preventable injuries from occurring. Consequently, even the slightest incremental gains in weight reduction are highly valued by military and law enforcement agencies globally. We believe this is also evidenced by existing product modernisation efforts for lighter and stronger protective materials by product providers globally.

Currently, the typical Small Arms Protective Insert (SAPI) used in body armour vests weighs approximately ~1 kilogram for a single plate. Using two plates (front and back), a soldier is thus carrying approximately ~2 kilograms of weight for torso body armour alone. XTEK believes it can produce a SAPI plate with the same protective qualities that are up to 30% lighter²¹. Therefore, by replacing standard SAPI plates with XTEK's SAPI plates, a soldier would be carrying ~1.4kg which results in a ~600g weight reduction (2kg minus (2kg x 70%)).



Image: XTEK Small Arms Protective Inserts (SAPI)

Source: www.XTEK.net

²⁰ <https://www.dst.defence.gov.au/sites/default/files/publications/documents/DSTO-TN-1051.pdf>

²¹ <https://www.monch.com/mpg/news/land/3591-euro-xtek.html>

Currently an old-generation SAPI plate costs ~US\$300, with XTEK's SAPI plates expected to cost ~US\$350 per plate. XTEK believes that 600g is an enormous amount of weight saved considering that the price for XTEK's solution would only be ~15-20% higher compared to existing and comparative old-generation solutions. We believe that this view is validated by the ADF's "Diggerworks" recent order of plates for evaluation purposes, with the reduction of weight being cited as the primary reason for the purchase.²²

Ballistic helmet shells

XTEK is also continuing to develop ballistic helmet shells. The Company believes they have already demonstrated the meeting of key military performance targets while also achieving significantly reduced weights and thickness compared to existing comparative solutions.²³ It is important to note however that a lighter helmet may not necessarily be considered an optimal solution by end users. Rather, a helmet with enhanced protective properties without an increase in weight could be considered a more valued product.

One weakness that many old generation helmet shells have is that they are incapable of stopping the standard AK47 bullet (MSC 7.62mm x 39mm). This characteristic is particularly useful for soldiers of Western forces as the AK47 is frequently encountered. In response to this issue, XTEK believes that it has developed the only composite helmet consistently capable of stopping an MSC bullet at a weight equivalent to that of less capable helmets.²⁴ Currently, only advanced helmets composed of significantly heavier materials (such as titanium) are capable of this feat. Further testing is expected before these helmet shells will be able to be commercialised.

New generation machine & current sales pipeline

Construction of the new XTCLAVE machine remains ongoing and is on track to deliver commercial sales by the end of the calendar year.²⁵ Each new machine is expected to have a CAPEX of US\$2-3m with the capacity to produce ~US\$20m of revenue potential. XTEK are also exploring the construction of an XTCLAVE machine for the lucrative U.S. target market.

Currently, the Company has 15 potential customers in the process of statistical validation which involves the purchase of 20-30 tests for further testing. This stage can typically take between 3-4 months. More

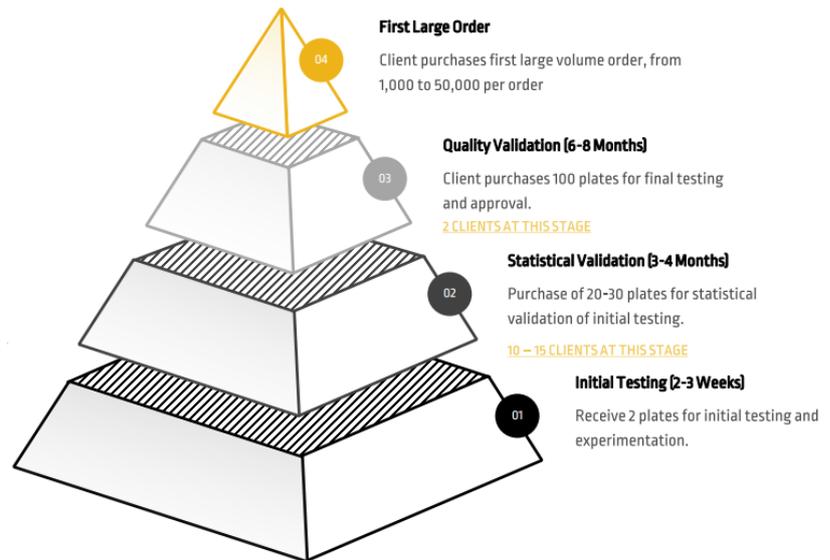
²² <https://www.asx.com.au/asxpdf/20180531/pdf/43vft6zy5pj4hk.pdf>

²³ <https://www.asx.com.au/asxpdf/20190221/pdf/442tr4rfrs3tfq.pdf>

²⁴ <https://www.asx.com.au/asxpdf/20181018/pdf/43zcmx93cf25f3.pdf>

²⁵ <https://www.asx.com.au/asxpdf/20190228/pdf/4432r29jqr575k.pdf>

advanced than this is the quality validation stage, which XTEK currently have two potential customers at (the ADF and FY Composites from Finland). After this stage, it is expected that a customer could order anywhere between 1,000 plates to 50,000 plates. Note that the daily production capacity of the XTCLAVE is expected to be ~240 plates a day, which provides an annual capacity of ~60,000 plates a year. This represents ~US\$20m a year of revenue at the expected US\$350 a plate price point.



Source: <http://investors.XTEK.net/research/deep-value-defence-technology>

XTATLAS

Overview & USP

XTATLAS is a solution which allows SUAS to capture and stream real-time, accurate geo-referenced mapping from Full Motion Video (FMV). The utility of this solution is that it provides situational awareness for the operator of the SUAS/UAV. For XTEK, who is already a provider of AeroVironment WASP AE's to the ADF, this solution has a synergistic position within the Company's suite of products and services. The USP of XTATLAS is that it can provide both accurate and timely image capture, as often timely solutions sacrifice accuracy, and vice versa. Most competitors of XTATLAS take many hours to analyse, which means the data gathered is often not actionable if an issue is time-sensitive.²⁶

²⁶ <https://www.asx.com.au/asxpdf/20181011/pdf/43z54qx4zjgrds.pdf>

In order to create timely geospatial data, XTATLAS is effectively combining three technologies into one bundle; 1) video exploitation tools, 2) a GIS application and; 3) a photogrammetry application. There are alternative solutions in the market which effectively address any one of these three individual technologies. However, there are very few, if any, technology solutions globally that are capable of exploiting all three at the same time in order to deliver timely, geospatially accurate 2D mosaic maps and 3D models as actionable intelligence. Furthermore, by bundling the three technologies together, XTATLAS simplifies each individual application for users. This is significant as the application of each individual technology usually requires a high degree of proficiency to operate effectively.

Other solutions are also incapable of displaying the location of the UAV which can be a hinderance to UAV operators as they may need to know the orientation from which the data is being captured from. The screenshot below is an example of this XTATLAS feature using an AeroVironment PUMA i45.



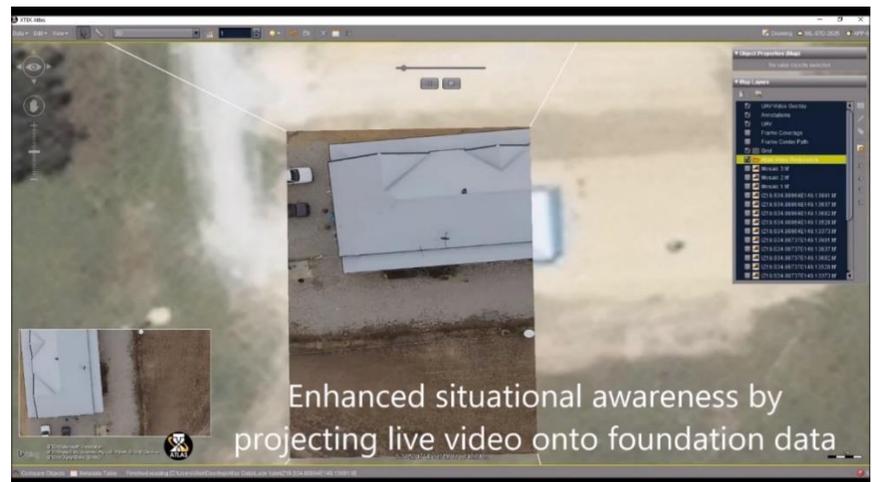
Source: <https://www.youtube.com/watch?v=xt0nnE0Lcw0>

Industry demand for accurate real-time image capture

The importance of the type of solution that XTATLAS is providing was validated by a recent Defence Geospatial Intelligence Conference, Europe's largest annual gathering of geospatial intelligence professionals. A survey conducted at the conference comprised of ~100 heads of imagery and geospatial in governments, agencies and businesses around the world. According to this survey, it was cited that the exponential adoption of GIS (geographic information systems) globally was being accelerated by border disputes on land and at sea. However, more importantly, the majority responded that the timely

availability of imagery to be one of their primary concerns when adopting GIS.²⁷ Given that XTATLAS is a live streaming solution, it can deliver timely data instantly, which therefore allows for respondents to act on the information gathered immediately.

The below screenshot is from the XTATLAS interface and is an example of the level of enhanced accuracy that XTATLAS is capable of capturing in real-time.



Source: XTEK YouTube Channel: <https://www.youtube.com/watch?v=hIR3K-20MG0>

Practical use cases for XTATLAS

On a battlefield, there are many examples of why high quality streamed graphical information could be useful. Such an example is the ability of a SUAS to survey an area which would allow military personnel to detect pixel changes in captured images which in turn could give away the location of an enemy sniper. However, it is important to note that XTATLAS can capture and stream more than just graphical information. The Sensor and Radiation Broad-band Interface (SARBI) application of XTATLAS also allows for the accurate and near real-time mapping from chemical, biological, nuclear and radiological sources too.²⁸ A practical use case of this technology is to be able to gauge whether it is safe to send ground troops into an area or not.

Commercialisation and market verticals

First sales of A\$70,000 to the ADF occurred in November of 2018, which is an important first step towards the commercialisation of the technology and is validation of the usefulness of the solution for

²⁷ <https://www.geospatialworld.net/news/defence-geospatial-intelligence-report-provides-insight-into-industry/>

²⁸ <https://www.asx.com.au/asxpdf/20190221/pdf/442tr4rfrs3tfq.pdf>

military use.²⁹ XTATLAS also has possible applications in other market verticals such as search and rescue, disaster response, law enforcement and firefighting which are currently being explored.

Macroeconomic tailwinds for XTEK

We believe several favourable macroeconomic tailwinds will benefit XTEK in the longer term. These include:

Increased spending by the Australian government in the defence sector

Current defence spending for the 2018 year was A\$34.7bn and is expected to reach A\$58.7bn by 2025. According to the 2016 defence white paper, the Australian Government will provide funding of “up to two per cent of Australia’s Gross Domestic Product by 2020–21, providing an unprecedented investment in Australia’s defence capability of approximately \$195 billion over ten years.”³⁰ Defence spending has also been decoupled from GDP in the event GDP contracts.

The requirement for Australian IP and local industry support

It is expected that the procurement of international defence goods will continue to ensure that the Australian defence industry is equipped with the most modern and cost-effective solutions available. However, the Department of Defence has stated that this procurement process is to be balanced against the need to maximise local content where possible to support the local industry.³¹ This sentiment is also echoed for calls to develop Australia into a global defence technology exporter as outlined by a plan to provide up to \$38bn in lending to the sector.³²

Modernisation of global military forces

As previously outlined, governments globally are modernising their army as a result of the development of stronger and lighter protective

²⁹ <https://www.asx.com.au/asxpdf/20181011/pdf/43z54qx4zjgrds.pdf>

³⁰ <http://www.defence.gov.au/whitepaper/Docs/2016-Defence-White-Paper.pdf>

³¹ <https://www.afr.com/news/special-reports/afr-focus-defence/the-best-weapons-and-equipment-needed-for-the-adf-20180323-h0xvsm>

³² <https://www.afr.com/news/policy/defence/turnbull-government-sets-up-38b-loan-scheme-for-defence-exporters-20180128-h0pj4l>

materials.³³ There is, therefore, an underlying growth in demand for solutions that XTCLAVE could deliver.

Exponential growth in GIS

As previously outlined, there is an exponential growth in geospatial data globally, and from a military perspective, this demand is being accelerated due to border disputes at land and sea.³⁴

Listed peers and basic financial metrics

Please see page 16 for XTEK's listed peers. Peers have been selected on the basis of having varying ties to the defence sector. These peers have been ranked top to bottom according to net income before extraordinary items. As can be seen below, the reported earnings for XTEK are high relative to its current market capitalisation in comparison to this peer group. This reinforces our view that XTEK has a reduced risk profile relative to companies of similar market capitalisation. We also believe this is reinforced by the fact XTEK have delivered positive net income in two consecutive financial years. XTEK also have a strong balance sheet, which currently stands at \$6.6m in cash with no debt for the half year ended 31st December 2018.³⁵ We also note that XTEK reported an operating cashflow inflow of \$0.9m for H1 FY2019, which further supports our view.

Note: It is commonly understood that investing in small companies is generally considered to be riskier than investing in companies with larger market capitalisations. Investors should therefore remember that investing in XTEK, as a small company, is still inherently speculative despite our view that XTEK has a reduced risk profile due to its underlying earnings.

³³ <https://www.prnewswire.com/news-releases/the-global-body-armor-and-personal-protection-market-2018-2028-300703321.html>

³⁴ <https://www.geospatialworld.net/news/defence-geospatial-intelligence-report-provides-insight-into-industry/>

³⁵ <https://www.asx.com.au/asxpdf/20190221/pdf/442tr4rfrs3tfq.pdf>

Key risks

We have identified several key risks that investors should be aware of, which include but are not limited to:

Long sales cycle

The nature of defence sector spending is inherently slow moving in nature. Contracts may take several years to be awarded because of required testing procedures, which is particularly true for XTEK's XTCLAVE.

Size of competitors

XTEK have several large global competitors in the defence sector that may provide similar solutions (for example, Lockheed Martin). These larger companies have larger balance sheets to support large amounts of R&D investment which has the potential to make XTEK's proprietary products redundant.

Potential for loss of contracts

Although XTEK is currently perceived to be the favoured party to continue maintenance of the ADF fleet for reasons previously mentioned, this may change. If this were to change it would have a material impact on the potential future revenue of the Company.

Board of Directors & Management

MR UWE BOETTCHER

Non-Executive Director/Chairman of the Board

Mr Boettcher is the Principal of the law firm, Boettcher Law, starting his career at the firm now known as King & Wood Mallesons. He is a Fellow of the Australian and New Zealand College of Notaries. In 2011 he was appointed as a Foundation Fellow of the Australian Association of Angel Investors. In 2005 he was appointed a Fellow of the Australian Institute of Banking and Finance. In 1996/97 he was the Treasurer of the ACT Law Society. Mr Boettcher has a special interest in commercialising new and innovative technologies, investing in them and bringing them to market.

MR PHILIPPE ODOUARD*Managing Director*

Mr Odouard has over 26 years in general management of Defence related companies in Australia and overseas. He developed Quickstep, an innovative ASX listed company from a start-up to a leader in composite manufacture and technology with \$50m revenue. He specialises in developing and commercialising new technology in a Defence environment.

MR ROBERT QUODLING*Executive Director*

Mr Quodling has extensive experience as a leader and motivator of high-performance commerce teams in the defence and aerospace sectors at the operational and executive level. His skills have been gained from a diverse range of activities including corporate governance, corporate planning, financial planning, project management, marketing, sales and business development. Mr Quodling as a former Army Officer held a range of command and operational appointments in the Australian Army between 1975 and 1994. He was awarded a Conspicuous Service Medal (CSM) for conspicuous service with the Special Air Service Regiment.

MR IVAN SLAVICH*Non-Executive Director*

Mr Slavich has over 30 years of senior management and executive experience in the energy, banking, telecommunications and business consulting arena. He has a proven track record over numerous years of being an exceptional leader and motivator in developing and implementing strategic innovations, business process re-engineering and integration, resulting in substantial improvement of business sales and profitability. He is the CEO of Energy Action Limited (ASX:EAX) and has held an officers rank in the Australian Army Reserve. He is a Graduate and Fellow of the Australian Institute of Company Directors.

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. He is

currently a non-executive director of ASX listed Paradigm Biopharmaceuticals Limited and his unlisted company directorships cover companies in the property investment and agriculture sectors.

MR LAWRENCE GARDINER

Company Secretary

Mr Gardiner served with the Australian Army and specialised in the fields of logistics 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.

XTEK Limited (ASX:XTE)as at 6th March 2019

Sector	Defence
Price	\$0.385
Rating	Not Rated

Listed Peers (Financial Data for the Year ending FY17/18)

Ticker	Market Cap	Cash and Equivalents	Total Debt	Enterprise Value	Total Revenue	EBITDA	Net Income Before E.I.	EV/EBITDA	P/E
CDA.AX	558.95	27.71	0	531.24	229.91	70.74	41.58	7.51	13.44
OEC.AX	28.66	10.51	7.77	25.92	21	0.97	1.74	26.72	16.47
XTE.AX	15.62	5.94	0	9.68	17.31	0.23	0.14	42.10	111.59
BCT.AX	46.92	1.17	0.6	46.35	0.56	-2.44	-2.49	-18.99	-18.84
ELS.AX	23.70	1.09	0.18	22.79	0.94	-1.99	-3.12	-11.45	-7.60
TTT.AX	130.02	10.35	0	119.67	0.27	-3.61	-3.77	-33.15	-34.49
AJX.AX	41.45	10.64	7.42	38.23	11.93	-4.12	-3.96	-9.28	-10.47
MOB.AX	10.85	8.08	0	2.77	1.78	-1.72	-6.09	-1.61	-1.78
DRO.AX	20.79	1.23	0	19.56	0	0	-6.34	NA	-3.28
D13.AX	22.26	0.75	5.87	27.38	2.71	-5.91	-7.25	-4.63	-3.07
SAS.AX	63.19	8.97	0	54.22	0.07	-7.14	-8.35	-7.59	-7.57
EOS.AX	236.42	9.99	0	226.43	23.26	-8.47	-9.4	-26.73	-25.15
BRN.AX	75.59	16.05	0	59.54	0.27	-12.75	-13.8	-4.67	-5.48

Source: Thomson Reuters

Key Financials

Key Financials Ending FY	2015/16	2016/17	2017/18
Revenue (\$m)	3.36	9.03	17.31
Growth	-73.39%	168.51%	91.78%
EBITDA (\$m)	-1.43	0.19	0.23
Growth	N/A	N/A	19.30%
EBIT (\$m)	-1.52	0.12	0.14
Growth	N/A	N/A	19.99%
Net Profit After Tax	-1.59	0.06	0.14
Growth	N/A	N/A	127%
EBITDA Margin (%)	-42.61%	2.15%	1.34%
EBIT Margin (%)	-45.08%	1.32%	0.83%
NPAT Margin (%)	-47.24%	0.68%	0.80%

Source: Thomson Reuters

Balance Sheet

Balance Sheet Ending FY (\$m)	2015/16	2016/17	2017/18
Cash & Cash Equivalents	0.55	2.82	5.94
Accounts Receivable	0.71	2.56	5.98
Inventory	0.77	0.89	1.47
Current Assets	2.18	6.93	13.74
Plant Property Equipment	0.28	0.32	0.51
Intangibles	0.07	0.08	0.10
Non-Current Assets	0.35	0.40	0.61
Total Assets	2.53	7.33	14.35
Account Payables	0.51	1.03	5.79
Current Liabilities	0.66	1.56	6.62
Non-Current Liabilities	0.13	0.16	0.16
Total Liabilities	0.79	1.72	6.78
Total Debt	0.00	0.00	0.00
Shareholder's Equity	1.74	5.61	7.57

Source: Thomson Reuters

Cashflow

Cashflow Ending FY (\$m)	2015/16	2016/17	2017/18
EBIT	-1.52	0.12	0.14
Depreciation & Amortization	0.00	0.00	0.00
Operating Cashflow	-1.92	-1.41	1.82
Investing Cashflow	-0.01	-0.13	-0.29
Financing Cashflow	1.59	3.81	1.59
Free Cashflow	-1.57	0.01	-0.07

Source: Thomson Reuters

Financials & Ratios

Financials & Ratios Ending FY	2015/16	2016/17	2017/18
Reported EPS (\$cps)	-6.18	0.17	0.35
Earnings Ex-E.I.	-7.27	0.21	0.35
DPS (cents)	0.00	0.00	0.00
PE Ratio	-5.59	309.02	129.12
PB Ratio	5.10	3.37	2.38
EV/EBITDA	-5.81	82.82	51.88
Dividend Yield (%)	0.00%	0.00%	0.00%
FCF Yield (%)	-17.71%	0.03%	-0.37%
Current Ratio	3.29	4.45	2.08
Quick Ratio	2.13	3.88	1.85
ROA	7.77%	-32.20%	0.56%
ROE	-93.31%	1.67%	2.11%

Source: Thomson Reuters

Third Party Research

Third Party Analyst / Broker	Last Release	Price Target	Download
Patersons Securities	31/08/2018	\$0.95	http://rsrch.us/xte-patersons
1 Broker		<u>Consensus</u> \$0.95	

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Rating Classifications

Rating	Return Expectations In 12 Months
Buy	Greater than +10% above the Benchmark
Hold	Between -10% and +10% of the Benchmark
Sell	Less than -10% below the Benchmark
Not Rated	The analyst has refrained from making a recommendation as a commercial relationship or conflict of interest may exist.

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