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# Half Year Results Presentation

Presenters

Executive Chair and  
Group CFO

29 February 2024



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# Agenda



- Results and overview
- 1H FY24 financial performance
- Review of HighCom Armor
- Review of HighCom Technology
- Strategic Priorities (short to medium term)
- Conclusion
- Q&A



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# Key Snapshot for 1H FY24



- On 12 February the Company announced revised guidance for a half year loss of between \$13m and \$15m.
- Final result for the half year is \$14.9m of revenue and an NPAT loss of \$13.5m. EBITDA loss of \$12.1m (includes non-cash impairment of \$6.2m).
- Result impacted by slower sales in HighCom Armor plus contract timing issues pushing revenue into H2.
- GP margins impacted by lower product margins and inefficiencies in USA manufacturing given fixed operating costs.
- Decision to impair inventory in HighCom Armor and some existing assets in the HighCom Technology (relating to Adelaide manufacturing facility closure).
- Reviewing all areas of the business including costs to right size business as well as productivity improvements, inventory management and sales.
- We remain committed to our long-term strategic goals and returning the business to EBITDA positive in H2 FY24.

Revenue

**\$14.9m**

Down by 69% PCP

Gross Profit

**\$3.2m**

Down by \$21.4m PCP

EBITDA

**(\$12.1m)**

Down from \$11.0m PCP

NPAT

**(\$13.5m)**

Down from \$6.0m PCP

Cash Balance

**\$1.6m**

Down from \$6.9m (Jun-23)

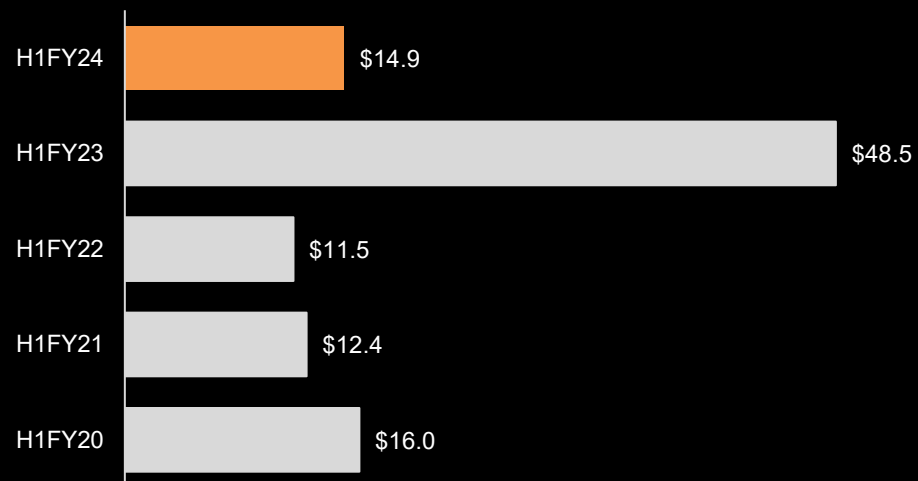
Issue	Strategy
<b>Need for greater visibility</b>	<ul style="list-style-type: none"><li>• Flattened out structure and streamline management reporting to board</li></ul>
<b>Cash management</b>	<ul style="list-style-type: none"><li>• Great control over discretionary spend from non-revenue generating activities</li></ul>
<b>Inventory reduction</b>	<ul style="list-style-type: none"><li>• Push for continued implementation of inventory policy. Upgrading of existing inventory and use of new sales channels to move old inventory</li></ul>
<b>European and US DoD sales approach</b>	<ul style="list-style-type: none"><li>• Made key hire of UK based sales resource for UK and European markets. Also recently hired key role for US DoD opportunities</li></ul>
<b>Manufacturing approach</b>	<ul style="list-style-type: none"><li>• Implementation of overall efficiency in the manufacturing process. Start to introduce granular cost tracking by product (labour and raw materials)</li></ul>
<b>Closure of operating facilities</b>	<ul style="list-style-type: none"><li>• Closure of two redundant facilities which will result in annual cost savings of \$3m.</li></ul>
<b>Overhead and consultant costs</b>	<ul style="list-style-type: none"><li>• Ongoing analysis of indirect savings e.g. consultants, insurance etc. Directors taking 3 months of reduced board fees as alignment to strategy.</li></ul>

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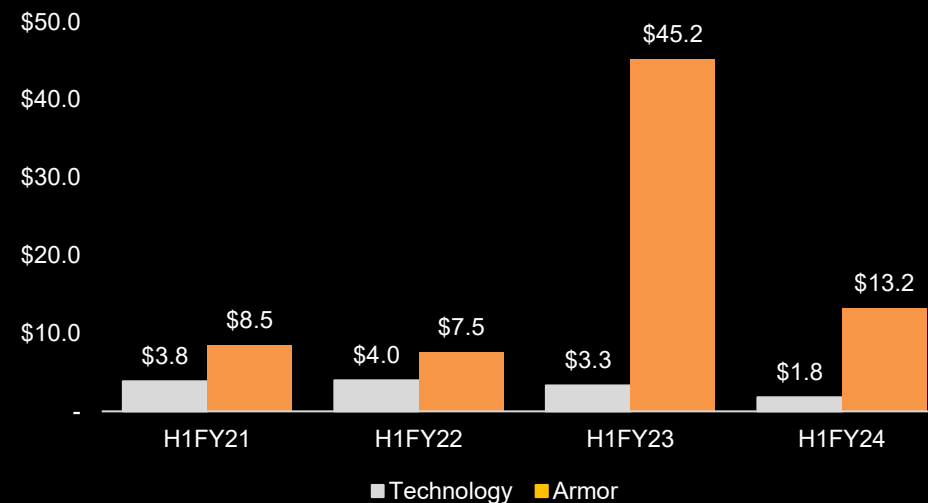
# H1 FY24 Results – Key Highlights



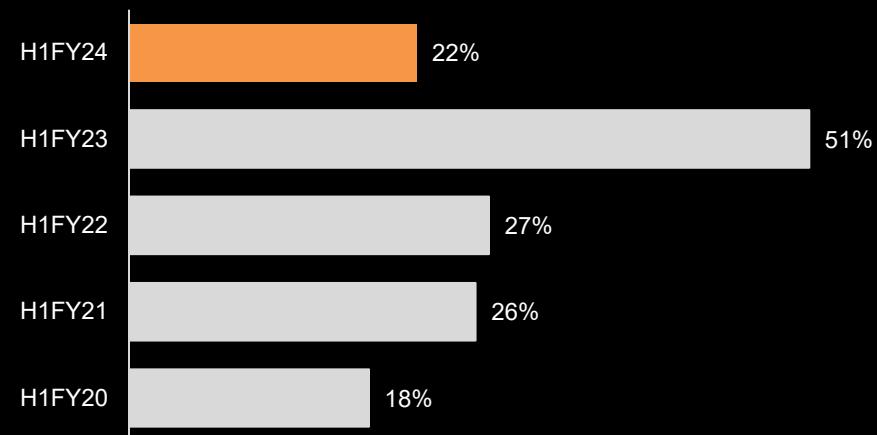
Revenue (A\$m)



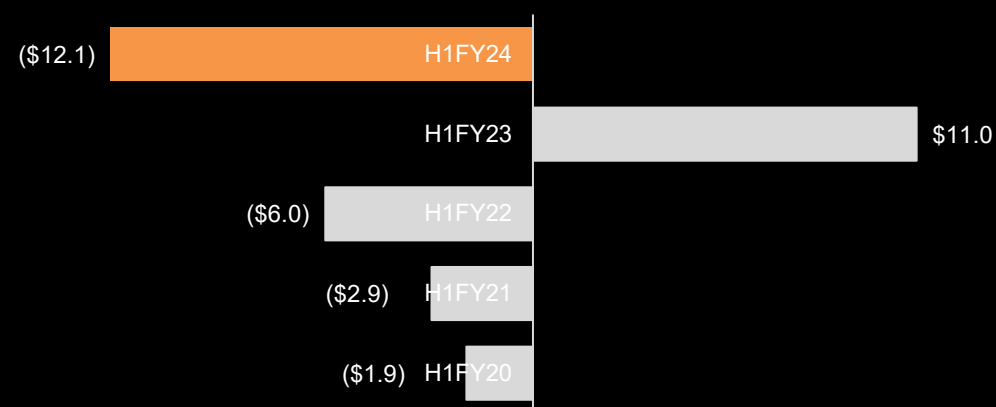
Divisional Revenue Attribution (A\$m)



Gross Margin (%)



EBITDA (A\$m)

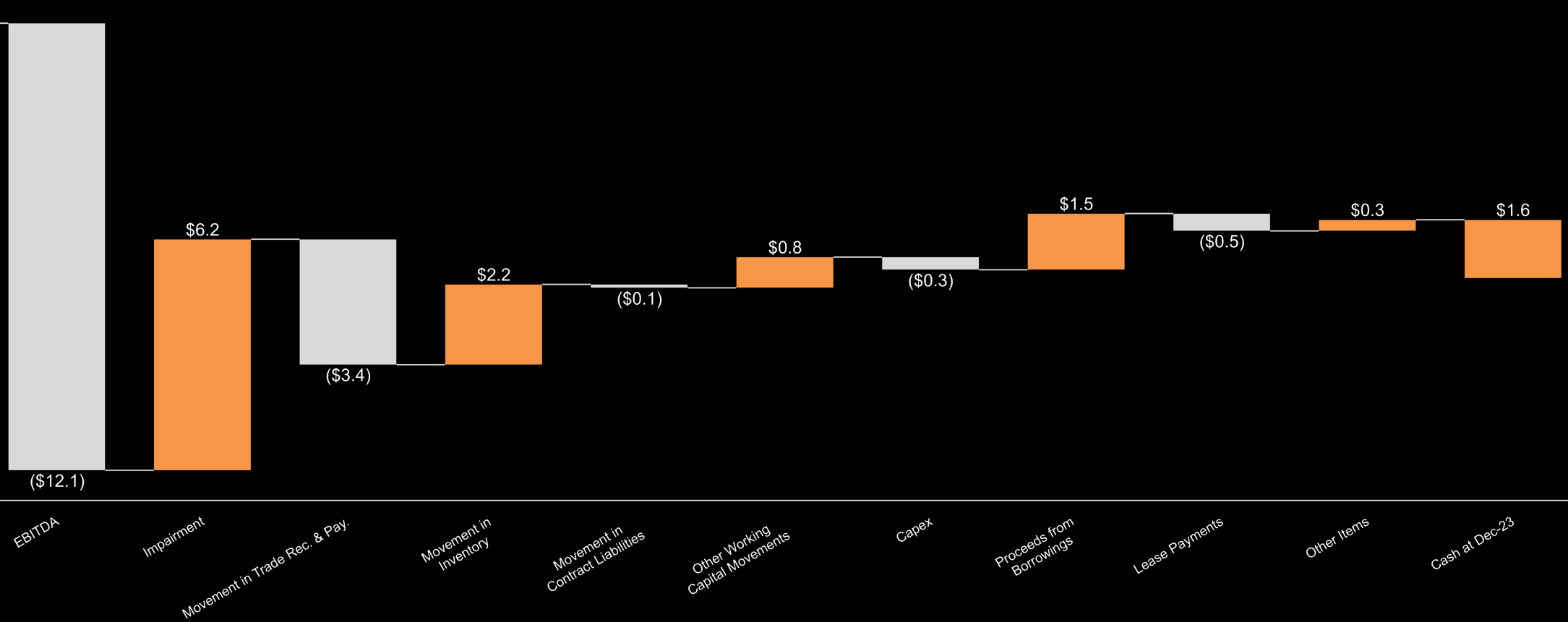


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# H1 FY24 Results – Key Highlights



Cash Flow Waterfall (A\$m)



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# GROUP OVERVIEW

Highcom Group is comprised of two distinct businesses – HighCom Armor & HighCom Technology.



## HighCom Armor

Designs, manufactures, and supplies global military, law enforcement, and first responder customers with world-class, advanced personal protection ballistic products and solutions for Body Armor, Ballistic Helmets, Shields, and Composite Armor Panels & Platform Structures.



## HighCom Technology

Supplies Australian Defence and Security Agencies with world-leading Small Uncrewed Aerial Systems (SUAS) and Sensor Payloads, and provides local Program, Project and Engineering Management, Systems Integration, Maintenance, Composite Repairs, and Logistics Support Services.



# HighCom Armor – Overview



- Designs, manufactures, and supplies world-class, advanced Body Armor, Ballistic Helmets, Shields and Armor Panels & Platform Structures.
- Key Customers: Global militaries, US law enforcement, national security and first responders.

## Locations:

- Global Manufacturing, R&D, US Sales & Distribution Centre – Columbus, OH, USA
- APAC Sales & Distribution Centre – Canberra, ACT, Australia



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# HighCom Armor – Update



- During the reporting period, delivered and received orders for customers located in the US and around the world.
- The monthly domestic US run rate sales in line with expectations for H1. Current order book backlog approximately \$9m, all of which it expects to deliver and recognise in H2 FY24. Details on next slide.
- Decision to cease all manufacturing operations in the Adelaide and relocate the business' patented XTclave to US.
- Sales pipeline experiencing growth over long-term trend line. New customer acquisition trends are pleasing and poised to take advantage of larger order sizes.
- Recent decision to close office in Poland. Focus European efforts from its North American operations, supported by a sales representative based in the UK.



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# HighCom Armor Activity – H1 Revenue Reconciliation and Forward Order Book



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- Run rate sales tracking in line with expectations
- \$7m+ of new Ballistic Armor orders secured during H1 for delivery in H2, with additional \$2m secured in Jan-24.
- H2 run rate sales expected to continue in line with expectations.
- Continuing to pursue and negotiate multiple large contracts with end users.
- Following recent review and analysis, qualified opportunity pipeline of \$45m.

## Summary of Deals

Order	FY24 Total	H1	H2	FY25+
Run rate sales <sup>(1)</sup>	\$10.0m	\$10.0m		
European Customer	\$1.8m	\$1.8m		
International Military	\$3.2m	\$0.4m	\$2.8m	
European Military	\$1.9m	\$1.0m	\$0.9m	
European Customer	\$2.8m		\$2.8m	
Other	\$2.5m		\$2.5m	
Future Pipeline				\$45.0m
<b>Total</b>	<b>\$22.2m</b>	<b>\$13.2m</b>	<b>\$9.0m</b>	<b>\$45.0m</b>

NOTES:

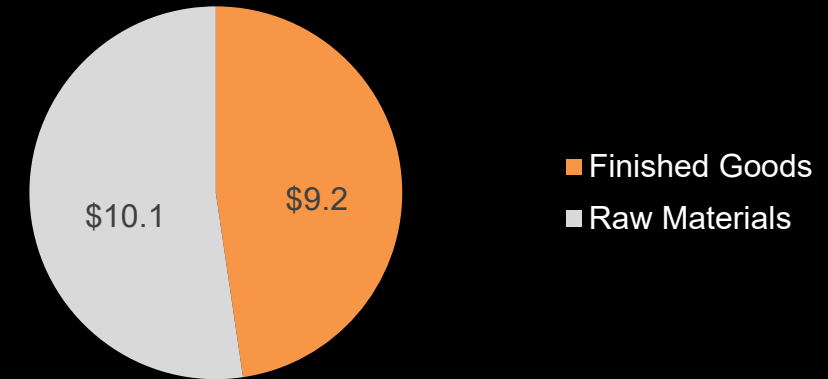
<sup>(1)</sup> 1H FY24 Only

# HighCom Armor – Inventory Management

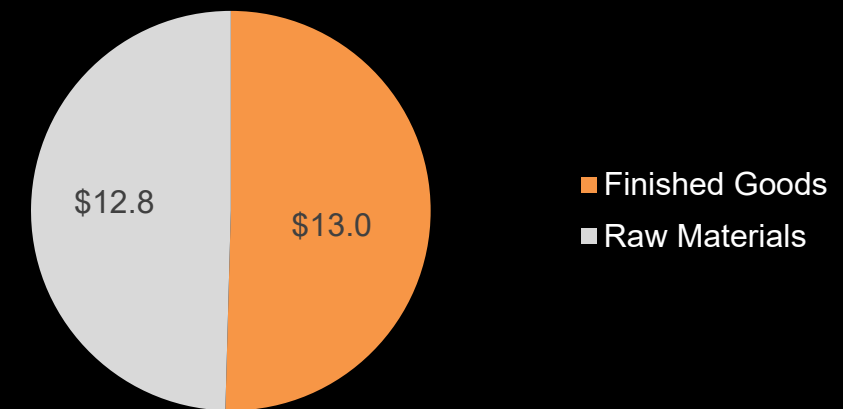


- Limited progress made during H1 2024 in reducing inventory levels since flagging issue end of FY23.
- New inventory policy implemented by Board during FY23 – \$8m - \$10m.
- Current inventory an equal mix of raw materials as well as finished product.
- Raw material inventory will be run down for current sales orders.
- Current initiatives in place to move finished armor via:
  1. Upgraded existing lower rated composite armor that use a common platform; and
  2. Utilising recently launched e-commerce site to move steel plates to retail customers.
- Board, in consultation with the auditors, took the decision to write down products which have had no sales in the last 12 months.
- If initiatives outlined above are successful, look to re-assess carrying value of inventory.

Inventory (Dec-23) (A\$m)  
Note: Inventory value reduced by \$4.4m due to impairment



Inventory (Jun-23) (\$m)



# Technology Relocation to USA



- XTClave & R&D capabilities relocated to facility in Columbus and are now on site in Columbus.
- Adelaide Manufacturing & R&D to closed effective end of period. Make good being finalised for release of the facility.
- Move maximises potential for ultra-lightweight and high-performance products in world's largest Ballistic Armor market.
- Moving to US makes us “Buy America Act” and “Berry Amendment” compliant – needed to pursue the US DoD opportunities.
- Following review by Board, recommissioning cost expected to be higher than forecast. Likely commissioning expected H1 FY25
- Cost synergies of +\$2m p.a. achieved. Full benefits realised H2 2024.



# HighCom Technology – Overview



- Co-located with Corporate Headquarters in Canberra, ACT, Australia.
- Focused on manufacturing and supplying Australian Dept. of Defence and Security Agencies with world-leading Australian-made and globally sourced:
  - **Systems** - UAV solutions and sensor payloads
  - **Software** - 3D Mapping & Modelling SW and Tactical Situational Awareness SW
  - **Support** - System Integration, Training & Service Support

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# HighCom Technology – Update



- HighCom Technology continued to focus on delivering the Tactical Persistent Uncrewed Aerial Systems (TPUAS) capability through Land 1508.
- Of the total \$26.9m contract, majority of the revenue was recognised in FY23. Final system acceptance and the final milestone payment expected late H2 FY24.
- HighCom Technology secured a multi-year support contract for the TPUAS fleet to provide the ADF with ongoing support services and spare parts for an initial term of 4 years (with 3x two-year options).
- The initial 4-year term of the contract valued at approx. \$40m.
- First spares order (\$4.1m) received and monthly recurring revenue commenced January 2024.
- In January 2024, HighCom Technology also secured a 12-month contract extension at approx. \$1.0m to continue to support the ADF's Small Uncrewed Aerial Systems (SUAS) through Land 129-4A.



# HighCom Technology – H1 Revenue Reconciliation and Forward Order Book



- \$3.4m SUAS Spare Parts Order booked for delivery H2 FY24.
- \$4.1m TPUAS Spare Parts Order booked for delivery H2 FY24 as part of 10-year / \$110m Support Contract.
- \$3.5m SUAS & TPUAS Support Contracts Recurring Service Fees, and \$8m booked for FY25-FY27. In addition, \$1.0m SUAS contract extension – now supported out to June 2025.
- Milestone payments (approx. \$3.0m) from TPUAS Acquisition Contract scheduled H2 FY24.
- H2 revenue anticipated to be +\$10 million based on signed deals.
- Qualified pipeline at \$45m covering multiple opportunities.

## Summary of Deals

Order	FY24 Total	H1	H2	FY25+
SUAS Spares	\$3.4m		\$3.4m	
TPUAS Spares	\$4.1m		\$4.1m	
Other	\$2.5m	\$1.3m	\$1.2m	
Support Contracts – Booked <sup>(1)</sup>	\$3.5m	\$0.5m	\$3.0m	\$9.0m
Support Contract – Opportunities <sup>(2)</sup>				\$25.0m
Opportunity Pipeline				\$45.0m
<b>Total</b>	<b>\$13.5m</b>	<b>\$1.8m</b>	<b>\$11.7m</b>	<b>\$79.0m</b>

### NOTES:

<sup>(1)</sup> SUAS & TPUAS Support Contracts Recurring Service Fees.

<sup>(2)</sup> TPUAS potential Spare Parts orders.



# Maintain our Strategy however new focus on sales and cost base



## REINFORCE SUCCESS

Invest in the areas of our business that have been successful and have potential for continued enhancement and growth.



## SEEK ADJACENCIES

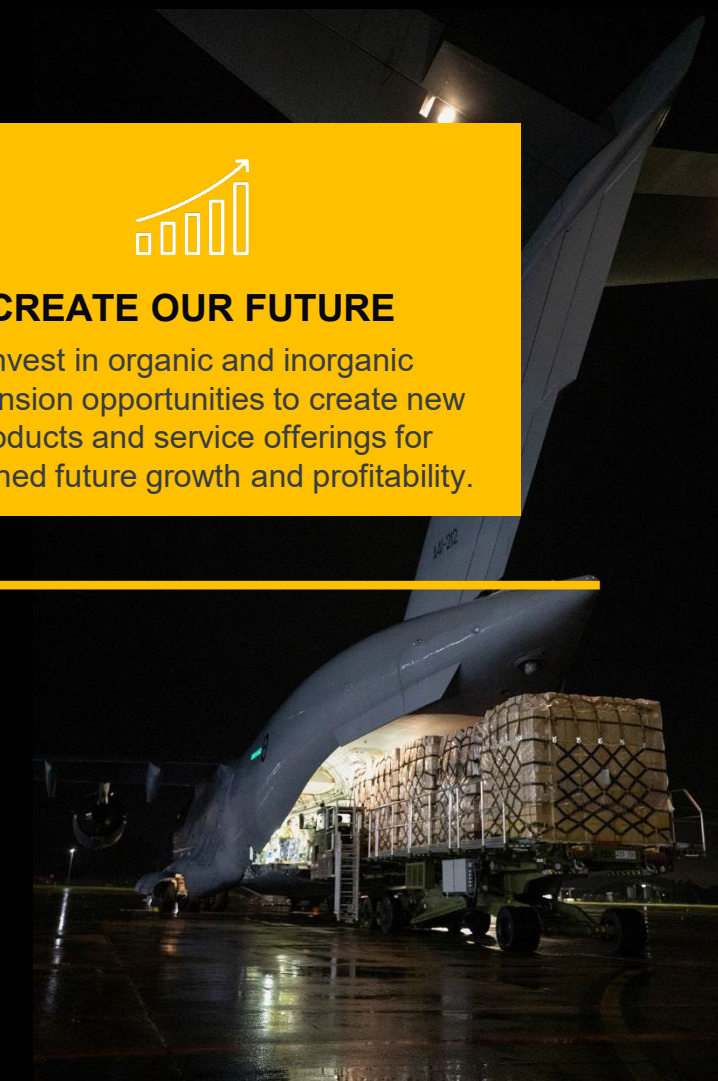
Find new business opportunities that extend our reach and can draw on our experiences and expertise.



## CREATE OUR FUTURE

Invest in organic and inorganic expansion opportunities to create new products and service offerings for sustained future growth and profitability.

- Right size cost base for more achievable revenue.
- Improvements in production and process to improve productivity
- Continue to invest in sale team and process to drive results



# Conclusion



- H1 FY24 financial result disappointing.
- Board has implemented a number of strategic initiatives to improve cost base and operational focus.
- Inventory management still a key priority, aim to reduce to \$8m - \$10m range. Initiatives underway.
- Operational objectives over the next 6 months include delivery of key components of SUAS order including commencing sustainment component and securing global armor opportunities and maintaining our “run rate” monthly sales.
- Return business to EBITDA positive in H2 FY2024.



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## Question & Answers

- Q&A submitted
- Contacts:  
Mark Stevens – Executive Chairman  
Jacqui Myers – Group CFO
- Email: [investors@highcom.group](mailto:investors@highcom.group)



# HighCom Limited Corporate Snapshot



## Capital Structure (28 February 24)

Shares Outstanding	102,682,672
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12 Month Share Price Range	A\$0.14 – A\$0.765
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### Cash Balance & Borrowings (31 December 23)

Cash Balance	A\$1.6m
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Borrowings	A\$1.5m
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### Senior Executive Management

Mark Stevens	Executive Chair
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Jacqui Myers	Group CFO
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### Board of Directors

Mark Stevens	Chair
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Mark Smethurst	Non-Executive Director
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Christopher Pyne	Non-Executive Director
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Ben Harrison	Non-Executive Director
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Adelaide McDonald	Non-Executive Director
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# Summary Income Statement



Summary Income Statement		H1FY23	H1FY24	Change
Revenue	A\$m	48.5	14.9	(69%)
Cost of Sales	A\$m	(23.9)	(11.7)	(51%)
Gross Profit	A\$m	24.6	3.2	(87%)
Gross Margin	%	51%	22%	(29pp)
Other Income	A\$m	0.1	0.3	297%
Operating Costs	A\$m	(13.7)	(15.6)	0.0
EBITDA	A\$m	11.0	(12.1)	(210%)
EBITDA Margin	%	23%	(81%)	(104pp)
NPAT	A\$m	6.0	(13.5)	(323%)
NPAT Margin	%	12%	(90%)	(103pp)

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# Summary Financial Position



Summary Financial Position		FY23	H1FY24	Change
Cash	A\$m	6.9	1.6	(5.3)
Receivables	A\$m	24.7	0.8	(23.9)
Inventories	A\$m	25.7	19.3	(6.4)
Other Current Assets	A\$m	4.5	3.7	(0.7)
<b>Total Current Assets</b>	<b>A\$m</b>	<b>61.8</b>	<b>25.4</b>	<b>(36.4)</b>
PP&E	A\$m	9.8	7.9	(1.9)
Other Non-current Assets	A\$m	4.6	3.5	(1.1)
<b>Total Non-current Assets</b>	<b>A\$m</b>	<b>14.4</b>	<b>11.4</b>	<b>(3.0)</b>
<b>Total Assets</b>	<b>A\$m</b>	<b>76.1</b>	<b>36.8</b>	<b>(39.3)</b>
Payables	A\$m	31.4	4.4	(27.0)
Contract Liabilities	A\$m	0.3	0.2	(0.1)
Borrowings	A\$m	-	1.5	1.5
Other Current Liabilities	A\$m	0.9	0.9	0.0
<b>Total Current Liabilities</b>	<b>A\$m</b>	<b>32.6</b>	<b>7.0</b>	<b>(25.6)</b>
<b>Total Non-current Liabilities</b>	<b>A\$m</b>	<b>1.4</b>	<b>0.9</b>	<b>(0.5)</b>
<b>Total Liabilities</b>	<b>A\$m</b>	<b>34.0</b>	<b>7.9</b>	<b>(26.1)</b>
<b>Net Assets</b>	<b>A\$m</b>	<b>42.1</b>	<b>28.9</b>	<b>(13.2)</b>

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