HIGHCOM

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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



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.

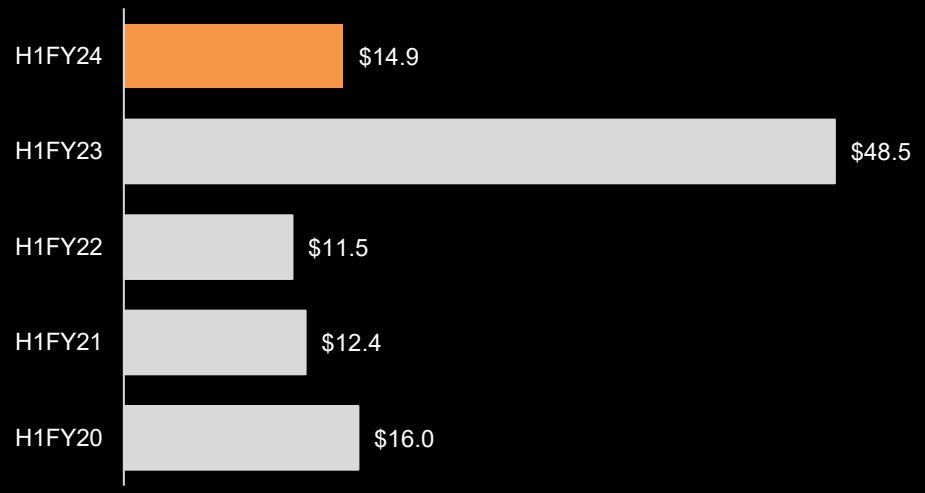
Revenue	Gross Profit	EBITDA	NPAT	Cash Balance
$14.9m	**$3.2m**	**($12.1m)**	**($13.5m)**	**$1.6m**
Down by 69% PCP	Down by $21.4m PCP	Down from $11.0m PCP	Down from $6.0m PCP	Down from $6.9m (Jun-23)

State of Play

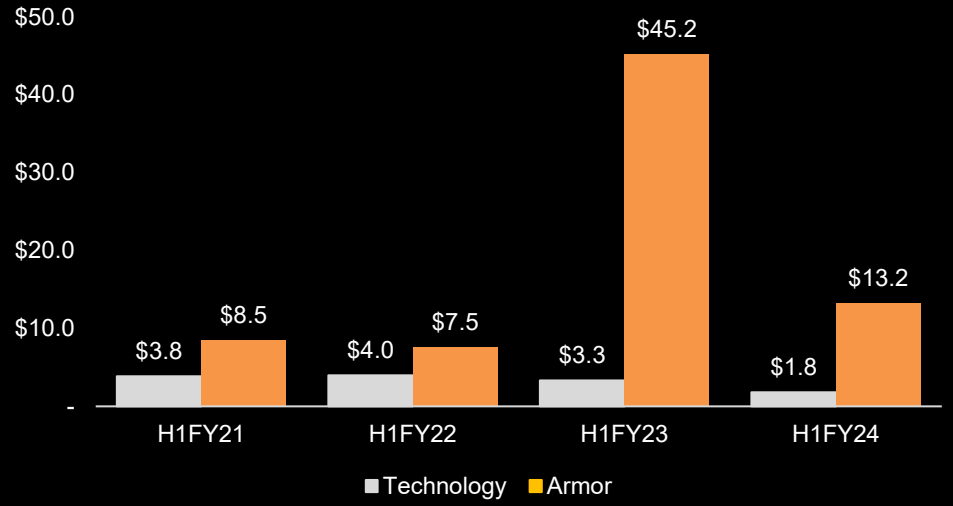
Issue	Strategy
Need for greater visibility	• Flattened out structure and streamline management reporting to board
Cash management	• Great control over discretionary spend from non-revenue generating activities
Inventory reduction	• Push for continued implementation of inventory policy. Upgrading of existing inventory and use of new sales channels to move old inventory
European and US DoD sales approach	• Made key hire of UK based sales resource for UK and European markets. Also recently hired key role for US DoD opportunities
Manufacturing approach	• Implementation of overall efficiency in the manufacturing process. Start to introduce granular cost tracking by product (labour and raw materials)
Closure of operating facilities	• Closure of two redundant facilities which will result in annual cost savings of $3m.
Overhead and consultant costs	• Ongoing analysis of indirect savings e.g. consultants, insurance etc. Directors taking 3 months of reduced board fees as alignment to strategy.

H1 FY24 Results – Key Highlights

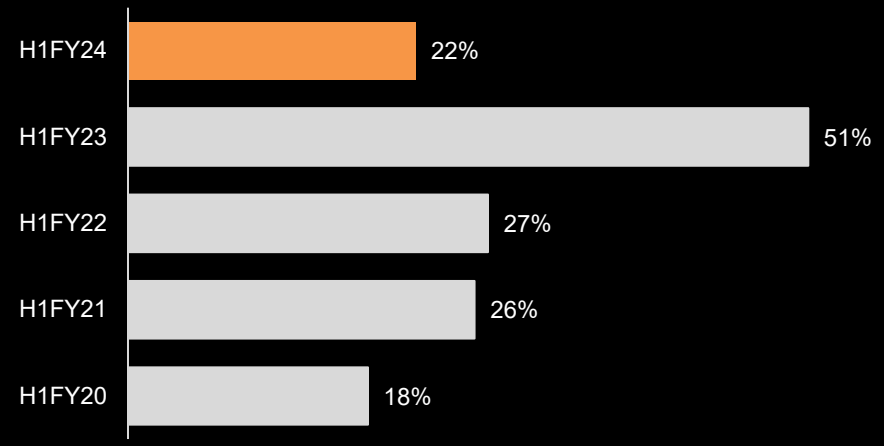
Revenue (A$m)



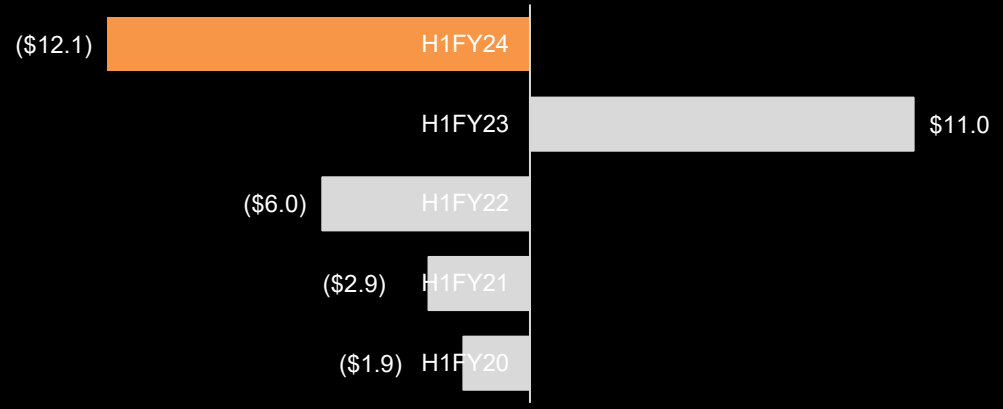
Divisional Revenue Attribution (A$m)



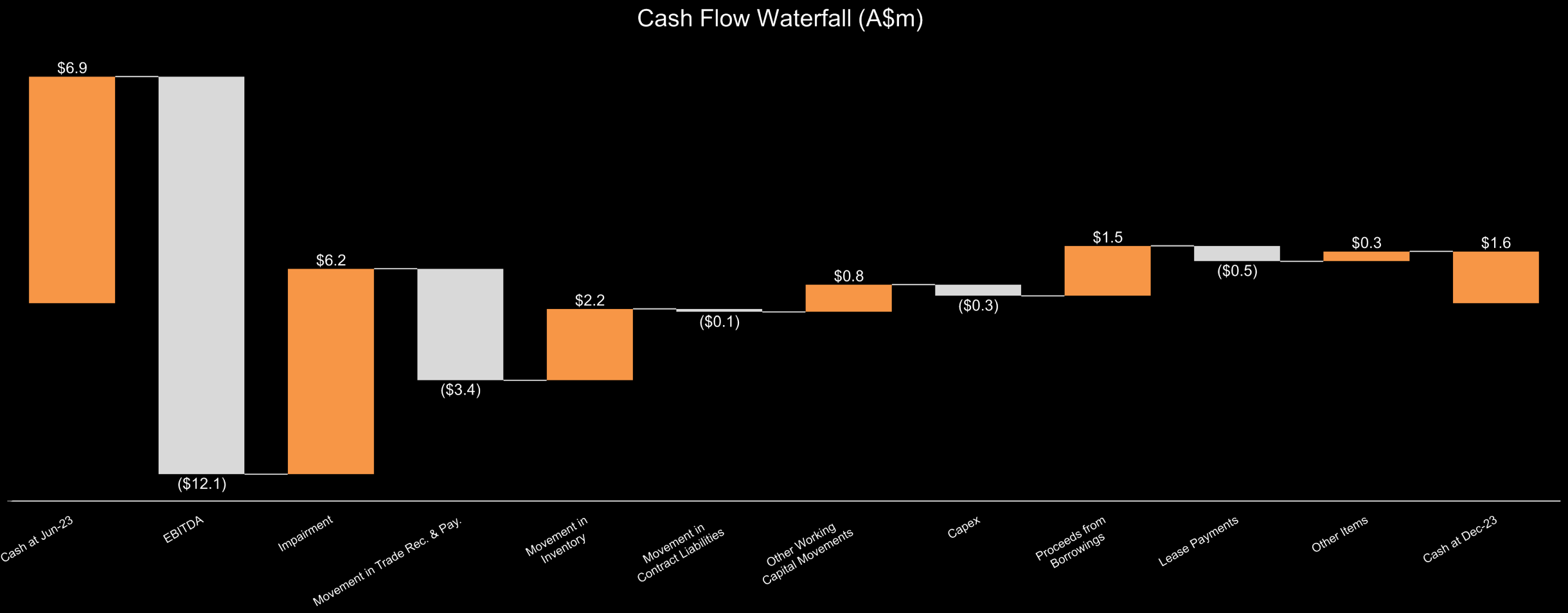
Gross Margin (%)



EBITDA (A$m)



H1 FY24 Results – Key Highlights



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.



HighCom Armor Activity – H1 Revenue Reconciliation and Forward Order Book

- 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 (1)	$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
Total	**$22.2m**	**$13.2m**	**$9.0m**	**$45.0m**

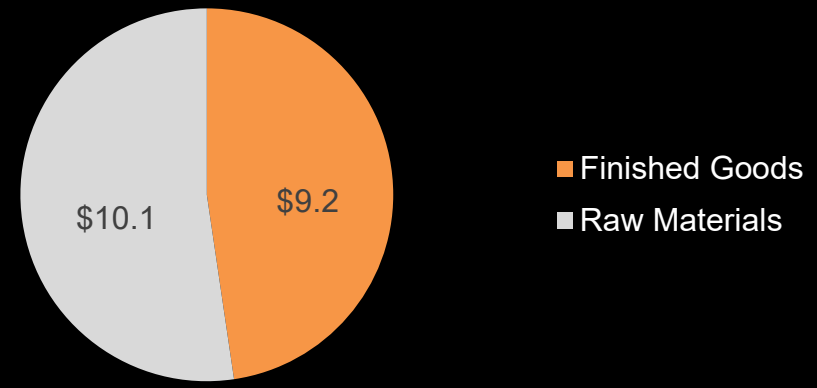
NOTES:
(1) 1H FY24 Only

HighCom Armor – Inventory Management

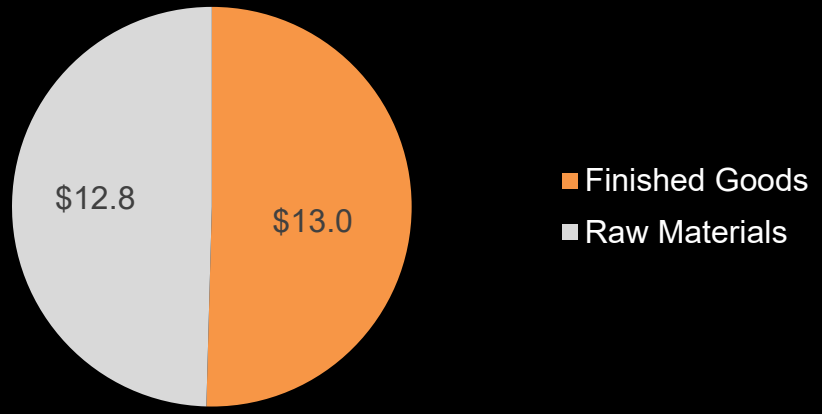
- Limited progress made during H1 2024 in reducing inventory levels since flagging issue end of FY23.
- New inventory policy implemented by Board during FY23 – $8m - $10m.
- Current inventory an equal mix of raw materials as well as finished product.
- Raw material inventory will be run down for current 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

For person







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 (1)	$3.5m	$0.5m	$3.0m	$9.0m
Support Contract – Opportunities (2)				$25.0m
Opportunity Pipeline				$45.0m
Total	**$13.5m**	**$1.8m**	**$11.7m**	**$79.0m**

NOTES:
(1) SUAS & TPUAS Support Contracts Recurring Service Fees.
(2) TPUAS potential Spare Parts orders.

Maintain our Strategy however new focus on sales and cost base

Maintain Strategy

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.

Near Term Strategy

- 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.



Question & Answers

- Q&A submitted

- Contacts:

Mark Stevens – Executive Chairman
Jacqui Myers – Group CFO

- Email: investors@highcom.group



HighCom Limited Corporate Snapshot

Capital Structure (28 February 24)

Shares Outstanding	102,682,672
12 Month Share Price Range	A$0.14 – A$0.765

Cash Balance & Borrowings (31 December 23)

Cash Balance	A$1.6m
Borrowings	A$1.5m

Senior Executive Management

Mark Stevens	Executive Chair
Jacqui Myers	Group CFO

Board of Directors

Mark Stevens	Chair
Mark Smethurst	Non-Executive Director
Christopher Pyne	Non-Executive Director
Ben Harrison	Non-Executive Director
Adelaide McDonald	Non-Executive Director



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)

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)
Total Current Assets	A$m	61.8	25.4	(36.4)
PP&E	A$m	9.8	7.9	(1.9)
Other Non-current Assets	A$m	4.6	3.5	(1.1)
Total Non-current Assets	A$m	14.4	11.4	(3.0)
Total Assets	A$m	76.1	36.8	(39.3)
Payables	A$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$m	0.9	0.9	0.0
Total Current Liabilities	A$m	32.6	7.0	(25.6)
Total Non-current Liabilities	A$m	1.4	0.9	(0.5)
Total Liabilities	A$m	34.0	7.9	(26.1)
Net Assets	A$m	42.1	28.9	(13.2)



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