

Codan shares fire on profit upgrade, buyout

TECHNOLOGY

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CODAN shares closed more than eight per cent higher yesterday after the Adelaidebased metal detector and defence communications company said its first half results would comfortably sail past last year's record result.

The company also announced the \$114m acquisition of US firm Domo Tactical Communications, which it said would add \$9m to before tax profits in its first year.

Codan will pay \$US88m for DTC with an additional payment of \$US16m should earnout targets be met this calendar year.

DTC was previously owned by a private equity firm, and "is an established technology provider for high bandwidth wireless communications with specialist capabilities in MIMO Mesh networks".

These are networks made up of multiple antennas which are self-forming and self healing, providing resilience.

"DTC is a trusted and long term supplier into more than 20 key United States government agencies as well as the 'Five Eyes' intelligence communities," Codan said.

"DTC's MIMO Mesh products provide wireless transmission of video and other data applications to predominantly first world customers, including military and special forces, intelligence agencies, border control, first responders and broadcasters.

"DTC is headquartered in the US, with locations in the UK and Denmark and has around 140 employees."

The acquisition will be fully funded from Codan's cash reserves. Chief executive Donald McGurk said the purchase was in line with Codan's stated goal to grow its tactical communications business.

"This is focused on providing total communications solutions by transitioning from a traditional voice-only platform via the addition of data and video communication capabilities," he said.

"This acquisition fills a technology gap and will be able to leverage Codan's global distribution channels into the developing world. Importantly, this transaction will be accretive for Codan shareholders from the outset."

On the profit front, Codan said it expected net profit for the first half to be in the order of \$40m, comfortably surpassing last year's record of \$30m for the same period.

"The demand for our metal detectors across both recreational and artisanal mining markets has been exceptional," the company said.

"During the first half we continued to realise the benefits from an expanding geographic spread, increased distribution into mass market retail channels and an investment to increase manufacturing capacity.

"Despite our tactical communications business being significantly down on the record first half FY20, the board expects the net profit after tax for the six months to 31 December 2020 to be in the order of \$40m."

Codan said its second half was usually stronger for detector sales, but it was too early to determine whether this would recur this year, given the strong performance so far.

"However, there is strong market anticipation about the launch of our new featurepacked detector in Q3 of FY21 and the communications business will enter the second half with an order book in excess of \$30m," it said. "Both will contribute to an expected strong full-year result."