



Electro Optic Systems Holdings Limited

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28 January 2021

ACTIVITY STATEMENT FOR THE QUARTER ENDING 31 DECEMBER 2020

The December quarter saw significant progress in several key areas of EOS business and a pre-Christmas disruption to export deliveries that required the Company to withdraw Full Year EBIT guidance.

The key events of the December quarter were:

- Delays to the Company's delivery processes in December requiring the Company to withdraw Full Year guidance for underlying EBIT; ¹
- SpaceLink investor webinar giving investors the first detailed look at the Company's compelling business plan in the satellite communications space; ²
- C4EDGE contract award by the Commonwealth of Australia to EOS as Prime Systems Integrator; ³
- \$5.1m Space Systems contract from the Commonwealth of Australia; ⁴ and
- RWS production initiated at the Company's US facility in Huntsville Alabama. ⁵

Underlying EBIT for FY 2020

The Company's delivery processes were initially disrupted by COVID-19 in late March 2020. By October 2020 the Company recovered those processes and product delivery resumed at a continually accelerating rate suggestive of a 2020 EBIT in the range \$20-30 million. Under the recovery plan shipments increased each month.

¹ Update to FY 2020 Profit Guidance [Update to FY2020 Profit Guidance](#)

² See SpaceLink investor webinar on 24 November 2020 <https://vimeo.com/482860556>

³ EOS awarded \$34m contract as Prime Contractor by the Commonwealth of Australia for the C4 EDGE program [C4 EDGE Announcement](#)

⁴ \$5.1m Space Systems contract from the Commonwealth of Australia [EOS Space Systems Contract](#)

⁵ RWS production initiated the Company's US facility in Huntsville Alabama [EOS USA Facility First Production](#)

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On 18 December 2020 EOS was advised that around 12 days of December shipments would not be received by the foreign customer before 31 December 2020, as required for EOS to recognise the revenue for those items.

- The specific causes of the disruption were international air freight bottlenecks and a fall in import license activity in the offices of the customer (foreign) governments.
- In a normal year this event would be unremarkable, but in 2020 the December shipments exceeded any other month as delivery momentum increased. The heavy skew of revenue and profits to Q4, and specifically December, made the outcome for the full year unusually dependent on activity in the final weeks of the year.
- The affected revenue, for which all costs had already been incurred in 2020, exceeded \$20 million.

There was also an FX impact on 2020 underlying EBIT from the rising value of the Australian dollar against the US dollar:

- The A\$ strengthened to 77 cents per US\$, compared to 72 cents at the time of the previous guidance update. Manufacturing costs are largely A\$ denominated versus revenue which is largely in US dollars. This exposure of the underlying EBIT could not be hedged due to uncertainty about the timing of income due to COVID-19 delays.
- In addition to the FX impact on underlying EBIT there is a FX impact on Statutory EBIT from the revaluation of the Contract Asset. This is a non-cash balance sheet adjustment and as such is excluded from underlying EBIT in accordance with normal accounting procedure.

The net result of these impacts was that the Company was required to withdraw the previous full year profit guidance.

Cash Flow for 2020 and 2021

These delays to around 2 weeks of deliveries and the associated deferral of revenue recognition into FY 2021 do not affect any prior cash flow assumptions by the Company. The Company has previously announced that the process of conversion of contract assets and inventory to cash receipts has commenced and would complete in Q2 2021 approximately 12 months after the raising of capital specifically for that inventory build. There has been no material change to this process.

SpaceLink business case presented in investor webinar

On 24 November 2020 EOS presented the SpaceLink business case to investors via an investor webinar. The strategic evolution of EOS Communications Systems began in 2017 with the core technology for optical satcom developed and agreements made with US customers to enter the market and deliver major increases in bandwidth. This led to the acquisitions of EM Solutions, Audacy, Collinear and AOptix Technologies, including securing FCC and CIFIUS approvals for the Audacy acquisition – all foundational for the launch of the SpaceLink business.

SpaceLink will build, own and operate a Medium-Earth Orbit satellite constellation with the first constellation to be launched and operational by 2024 with positive operating cash flow. Subsequent constellations will include optical technology that will usher in a new era of satellite communications for EOS customers, avoiding the limitations of GEO and LEO orbits, giving users high bandwidth, high security, low latency, and low cost. SpaceLink's primary market is Five Eyes Defense and Government customers with a secondary focus on commercial and civil space users. The key competitive advantages for SpaceLink come from spectrum allocation and optical IP. EOS has a comprehensive allocation in K, Ka, Q/V bands with c. 64% of commercially available spectrum in those bands and the introduction of hybrid RF-Optical technology will cement SpaceLink's first-mover advantage. The project economics are compelling with EOS management's modelling suggesting an NPV of US\$1bn per constellation and project IRRs of 20%.

EOS awarded \$34m contract as Prime Contractor for the C4 EDGE program

In December, EOS was awarded a A\$34.4m contract by the Commonwealth of Australia for the C4 EDGE program, with EOS Defence Systems as the Prime Contractor for an all-Australian industry consortium to demonstrate a sovereign Battlegroup and Below Battlefield Command system (“BG-BCS”). This commitment by the Morrison Government and the Australian Army will support the development of innovative local businesses capable of providing our armed forces with the critical, world-leading communications solutions they will require into the future.

The C4 EDGE solution will incorporate locally-sourced combat radios, satellite terminals, cryptography, networking middleware, command applications, user interfaces, batteries and power management into a coherent system. The program will utilise Australian design, production, workforce, intellectual property and supply chain in the development and demonstration of this capability.

A successful C4 EDGE capability will help address the Army’s significant future requirements for sovereign communications systems. The Government’s *2020 Defence Strategic Update* lays out an investment pipeline for battlefield communications and command systems of between A\$5.0bn and \$7.5bn over the next 20 years.

Space Systems Awarded A\$5.1m Commonwealth Space Contract

On 16 October EOS Space Systems was awarded an AU\$5.1 million contract by the Australian Department of Defence for technical development. The contract commenced in Q4 2020 and will run for two years.

US production of RWS commenced

EOS Defence US commenced production at the Huntsville Alabama plant during the quarter. The first complete units began shipping in October for existing large and small contracts, including a R400S Mk2D to the US Army to support the United States Army Combat Capabilities Development Command Armaments Center Joint Center of Excellence for Lethality at Picatinny Arsenal under a purchase order awarded through the Tailored Logistics Support Program – Special Operational Equipment.

The CCDC-AC chose the R400S Mk2 D (R400) four axis remote weapon station for further capability analysis. The R400S Mk2 D weighs less than 1000lbs and the system is widely known for its light weight, precision, platform versatility and ability to be configured to support multiple weapons. The first round hit probability is provided through an enhanced integrated ballistic solution which analyses weapon and ammunition data, range, and ambient environment in addition to vehicle attitude. Performance is further enhanced with optional video tracking of targets and multi-axis stabilization.

The company also intends to establish initial capabilities in space communication terminals in Huntsville, based on the globally-successful products developed by EOS subsidiary EM Solutions in Brisbane. Business development activity and the sales pipeline for the US business continues to develop largely in line with management expectations.

This announcement has been authorised for release to ASX by Ben Greene, Director.

Further information:

Ben Greene

Group CEO

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

ABN

95 092 708 364

Quarter ended ("current quarter")

31 DECEMBER 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	36,302	98,000
1.2 Payments for		
(a) research and development	(1,849)	(9,501)
(b) product manufacturing and operating costs	(21,421)	(125,867)
(c) advertising and marketing	(612)	(2,090)
(d) leased assets	-	-
(e) staff costs	(11,454)	(43,939)
(f) administration and corporate costs	(5,557)	(19,031)
1.3 Dividends received	-	-
1.4 Interest received	70	557
1.5 Interest and other costs of finance paid	(915)	(3,876)
1.6 Income taxes paid	(2,366)	(12,828)
1.7 Government grants and tax incentives	4,614	9,087
1.8 Other (provide details if material)	(120)	326
1.9 Net cash from / (used in) operating activities	(3,308)	(109,162)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(7,631)	(24,544)
(d) investments	-	-
(e) intellectual property	-	(5,167)
(f) other non-current assets	-	-

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12.months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Security deposits	-	(7,258)
2.6	Net cash from / (used in) investing activities	(7,631)	(36,969)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	407	139,167
3.2	Proceeds from issue of convertible debt securities	-	
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Repayment of lease liabilities	(868)	(3,244)
3.10	Net cash from / (used in) financing activities	(461)	135,923

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	79,417	77,881
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,308)	(109,162)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(7,631)	(36,969)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12.months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(461)	135,923
4.5	Effect of movement in exchange rates on cash held	(2,082)	(1,738)
4.6	Cash and cash equivalents at end of period	65,935	65,935

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	7,756	5,033
5.2	Call deposits	58,179	74,384
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	65,935	79,417
Note	Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantees	16,671	17,935

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	331
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

The amounts included in Item 6.1 includes \$172,154 in salary and other benefits to the CEO. Consulting fees paid to non-executive directors of \$54,000 and \$105,000 paid in directors fees and superannuation to directors and entities associated with non-executive directors during the quarter.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other – Export Finance Australia	41,045	41,045
7.4 Total financing facilities	41,045	41,045
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
The consolidated entity provided a performance bond in respect of a contract in the Defence sector for US\$31,635,147 (A\$41,044,894) in relation to an overseas defence sector contract. The performance bond was provided by Export Finance Australia under a Bond Facility Agreement and is secured by a cash security deposit of A\$12,313,468 and a fixed and floating charge over the assets of the consolidated entity. The costs of this facility are included in Item 1.5 as other costs of finance paid.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(3,308)
8.2 Cash and cash equivalents at quarter end (item 4.6)	65,935
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	65,935
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	19
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: N/A	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

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Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 January 2021

Authorised by the Board

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.