ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED
ABN 095 708 364
18 Wormald Street
Symonston, ACT 2609, Australia
+61 2 6222 7900
www.eos-aus.com

H1 2022 Results

Canberra, 7 September 2022

SUMMARY

Electro Optic Systems Holdings Limited (**EOS** or **Company**) has filed its consolidated half year results on Appendix 4D (**Appendix 4D**) for the six months ended 30 June 2022 (**H1 2022**).

The Company also announces the entry into a financing agreement with a major shareholder, Washington H. Soul Pattinson and Company Limited (**WHSP**). WHSP has refinanced an existing $35m loan (on a short term basis) and provided an additional $20m working capital facility to support the restructure of the Company's core Defence and Space business.

1. RESULTS FOR HALF YEAR ENDED 30 JUNE 2022

- The Company reported an operating loss after tax of $98,945,653 for H1 2022 (30 June 2021: $11,727,207).
- A significant component of the loss, $54,436,435, is attributable to the impairment of assets and onerous contracts held in SpaceLink Corporation.
- Included in the loss after tax is an income tax benefit of $6,580,001(30 June 2021: $2,913,825 income tax expense).
- Notwithstanding the impairment recognised in the period, the Company continues to explore opportunities to realise value from the SpaceLink assets and, as at the date of this announcement, remains in active negotiations with potential partners and purchasers.
- Revenues from ordinary activities were $53,776,311, representing a 45% reduction on the prior comparative period (30 June 2021: $97,820,154).
- EBITDA (excluding impairment) was a loss of $34,698,825 compared to an EBITDA loss of $288,772 in the prior comparative period.

The underlying H1 2022 EBIT loss (excluding impairment and onerous contract expense) was driven by:

- Delayed revenue recognition arising from supply chain disruption.
- A cost structure larger than required for the current level of revenue. This is being addressed as part of the organisational restructure being implemented following the strategic review (see below).
- Significant operating expenses for SpaceLink ($15m) and development and testing for new directed energy products ($3m).

The Company reported net cash used by operations for H1 2022 totalling $17,062,577 (30 June 2021: $4,568,974 net cash from operations). At 30 June 2022, the consolidated entity held cash totalling $13,843,434 (31 December 2021: $59,260,655).

2. IMPLEMENTATION OF STRATEGIC REVIEW RECOMMENDATIONS

During H1 2022, the Company commenced a strategic review. Following that review, and from 1 August 2022, under the leadership of new CEO, Dr Andreas Schwer, the Company committed to execute the following key recommendations:

- Renew the leadership team and add managers with deep defence and commercial experience.
- Simplify the business to focus more on the core defence and space technology businesses.
- Undertake an organisational restructure to enable a more focused strategy.
- More closely align research and development spending with commercial investment criteria.
- Improve sales and marketing effectiveness in Asia, Europe and the U.S.
- Prioritise capital towards core defence and space businesses and implement an alternative investment model for SpaceLink.

3. OUTLOOK

The company is in the process of making the following changes in H2 2022 to reverse the EBIT and cash flow momentum of the first half and establish a strong platform for 2023:

A. Restructure

The Company is adopting a leaner structure that will prioritise existing business lines that are profitable and respond to customer procurement activity rather than anticipating requirements through customer planning documents. Full-year cost savings of at least $20m are expected from these changes that include significant management change, reductions in workforce, and a simplified strategy and business plan.

B. Reduced Investments

As previously announced, the Company has determined that the commercialisation of SpaceLink can only occur with the participation of a strategic or financial investor with an understanding of the specialised nature of that sector given the capital requirements and risk profile of this investment.

Accordingly, the Company is prioritising capital into the Defence and Space businesses and continues to explore potential strategic and funding partners and investors.

Current discussions with strategic and financial investors indicate a broadening of funding sources for SpaceLink may be achieved by late 2022, however there is no guarantee that any transaction will eventuate.

C. Supply Chain

Constraints on the delivery of cannon and other parts are easing. Delays in the receipt of customer-furnished equipment necessary to enable the company to complete revenue and invoicing milestones are being addressed by increased supplies as well as contract waivers by the customer to bypass shortages.

TAILWINDS

In addition to the organisational restructuring changes outlined above, the Company will also leverage:

- The contract asset of $133.3m, being products completed for existing contracts but not yet delivered or invoiced. This balance sheet asset will be converted to cash through current contracts which will require over $350m of these products to be delivered and invoiced.
- The high levels of customer satisfaction experienced with the Company's product performance and quality. This is a strong advantage when most current customers are expanding their defence acquisition budgets and most are seeking more products of the types provided by EOS.
- Defence procurement processes in Australia, the U.S. and across the Middle East that are recovering from the disruption of COVID-19 and major re-organisations. After long delays in all these markets EOS has, post balance date, received notification for contract negotiations through H2 2022 exceeding $100m in aggregate contract value and covering both the Space and Defence sectors and all major geographic markets.
- The Company's directed energy products which are recognised as price-performance leaders through success in achieving source selection in the two largest directed energy acquisition programs subject to competition from open sources in 2022. EOS' long experience in operational deployment of high-power lasers is a unique asset in monetising this technology which is now in high demand.

HEADWINDS

The Company is also seeking to overcome the following headwinds:

- Working capital will remain tight until investment in contract assets can be unwound back to cash. (Refer note 1c 'Financial Statements going concern' in the Appendix 4D). The Company has entered into a refinancing arrangement with WHSP (described below) for the provision of short-term working capital, but, in the medium-term, cash is expected to be recovered by converting the contract asset to cash under existing contracts.
- Market capitalisation of the Company has fallen substantially over 30 months, reducing scale. This may mitigate against larger contract awards in some markets.
- Inflation will impact the cost of working capital as well as increase the profit risk on larger long-term contracts. The Company is negotiating staged procurements for some larger programs to reduce this risk (although there can be no guarantee that appropriate agreements will be reached).

During the second half of H1 2022, the Company and its largest customer executed contract changes to streamline the invoicing and payment processes. Those changes are now in effect. The Company expects a recovery in its cash position in H2 2022 based on a planned conversion of at least $40m contract asset to cash in H2 2022. Further conversions are planned throughout 2023.

4. FINANCING PACKAGE

The Company has secured the arrangements described below with WHSP.

A. $35m Debt Facility

WHSP has refinanced the $35m Roadnight debt facility due to expire on 6 September 2022 and extended the current maturity date to 26 September 2022. The Company expects to seek further extensions from WHSP as part of a staged refinancing of the Company (although, there can be no guarantee that such extensions will be obtained).

B. $20m Working Capital Facility

Key terms:

- $15m in initial committed facility, subject to conditions precedent, plus a further $5m at the discretion of WHSP.
- The facility will be available (subject to satisfaction of conditions precedent) for drawing for 12 months following the first advance.
- The conditions precedent include specific requirements regarding information on the use of funds and the provision of cash flow forecast information.
- Interest is at 15% per annum.
- The maturity date is 12 months after the first drawdown.
- Minimum amount of interest, upfront fees, and line fees during the term of the facility will be $6.9m
- There are representations and financial covenants in relation to the asset coverage ratio and cash inflows and outflows.
- The events of default and review included in the agreement are typical for a facility of this nature, including termination or default under a material delivery agreement.

The Company expects to continue to work with capital providers including WHSP to adapt and transition from these arrangements to a debt and equity structure to meet longer term working capital requirements. It also relies upon continued conversion of its contract assets to cash with approximately $40m expected to be converted by December 2022.

GUIDANCE

Previous guidance issued by the Company indicated 2022 revenue at or above 2021 levels, i.e. $212m or above.

Company revenue is made up of delivery against contracts won in previous years plus delivery against new contracts won in the year.

As noted above delivery against existing contracts in H1 2022 was impacted by supply chain constraints. Whilst these constraints are now easing some impact is now expected to continue into H2 2022 which may cause some revenue recognition to be delayed from H2 2022 into H1 2023.

Further, whilst the Company has not lost any contracts awarded by customers in the year, the Company advises that the awarding of new contracts has been slower than expected over recent months.

Notwithstanding this the Company has significant new business opportunities, including the potential provision of RWS systems to Ukraine, that may provide increases in revenue in the short-term.

In light of these recent developments the Board of Directors have asked the newly appointed CEO and CFO to conduct a thorough re-assessment of the financial outlook for the Company, including an assessment of these evolving risks and opportunities and any impacts on revenue. This review will take place over the next several weeks.

An update on the outlook for the Company will be provided once this re-assessment has been completed.

Investor Conference Call

The Company intends to host a conference call for investors on the morning of Thursday 8 September 2022. Details will be provided separately.

This announcement has been authorised for release to the ASX by the Board of Directors.

Further information:

Andreas Schwer
Chief Executive Officer

enquiry@eos-aus.com

ABOUT ELECTRO OPTIC SYSTEMS (ASX: EOS)

EOS operates in two divisions: Defence Systems and Space Systems

- Defence Systems specialises in technology for weapon systems optimisation and integration, as well as ISR (Intelligence, Surveillance and Reconnaissance) and C4 systems for land warfare. Its key products are next-generation remote weapon systems, vehicle turrets, counter-UAS and C4 systems.

- Space Systems includes all EOS space and communications businesses, and operates as three entities – SpaceLink, EM Solutions and Space Technologies. SpaceLink is developing a constellation of Medium Earth Orbit satellites to create the communications superhighway for the space economy. EM Solutions provides global satellite communications services and systems. Space Technologies specialises in applying EOS-developed optical sensors to detect, track, classify and characterise objects in space and remains integral to research and development across the group.

Important notice and disclaimer

This announcement may contain statements that are, or may be deemed to be, forward-looking statements. Such statements can generally be identified by the use of words such as 'may', 'will', 'expect', 'intend', 'plan', 'estimate', 'anticipate', 'believe', 'continue', 'objectives', 'outlook', 'guidance', 'forecast' and similar expressions. Indications of plans, strategies, management objectives, potential transactions, sales and financial performance are also forward-looking statements. Such statements are not guarantees of future performance, and involve known and unknown risks, uncertainties, assumptions, contingencies and other factors, many of which are outside the control of the Company. No representation is made or will be made that any forward-looking statements will be achieved or will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements, particularly in the light of the current economic climate and the significant volatility and uncertainty, and the Company assumes no obligation to update such statements. Past performance information in this announcement is given for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance.

No representation or warranty, expressed or implied, is made as to the accuracy, reliability, adequacy or completeness of the information contained in this announcement.

This announcement is not, and is not intended to constitute, financial advice, or an offer or an invitation, solicitation or recommendation to acquire or sell EOS shares or any other financial products in any jurisdiction and is not a prospectus, product disclosure statement, disclosure document or other offering document under Australian law or any other law. This announcement also does not form the basis of any contract or commitment to sell or apply for securities in EOS or any of its subsidiaries. It is for information purposes only. EOS does not warrant or represent that the information in this announcement is free from errors, omissions or misrepresentations or is suitable for your intended use. The information contained in this announcement has been prepared without taking account of any person's investment objectives, financial situation or particular needs and nothing contained in this announcement constitutes investment, legal, tax or other advice. The information provided in this announcement may not be suitable for your specific needs and should not be relied upon by you in substitution of you obtaining independent advice. Subject to any terms implied by law and which cannot be excluded, EOS accepts no responsibility for any loss, damage, cost or expense (whether direct or indirect) incurred by you as a result of any error in, omission from or misrepresentation in this announcement.

All financial information has been prepared and reviewed in accordance with Australian Accounting Standards. Certain financial data included in this announcement is 'non-IFRS financial information'. In particular, this announcement contains references to the following non-IFRS measures: EBIT and EBITDA. The Company believes that this non-IFRS financial information provides useful insight in measuring the financial performance and condition of EOS. Readers are cautioned not to place undue reliance on any non-IFRS financial information included in this announcement. These measures have not been subject to audit or review.

This announcement should be read in conjunction with EOS's other periodic and continuous disclosure announcements lodged with ASX. In particular, this announcement forms part of a package of information about EOS. It should be read in conjunction with EOS's Appendix 4D also released today.

The information in this announcement remains subject to change without notice. Circumstances may change and the contents of this announcement may become outdated as a result