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Electro Optic Systems Holdings Limited

Investor Presentation – 8 September 2022

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- **Financial years:** FY refers to the full year to 31 December, H1 refers to the six months to 30 June, and H2 refers to the six months to 31 December.
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Introduction

EOS is Under New Management



Andreas Schwer, CEO

- Over 30 years in global Defence, Manufacturing and Space
- Previously with Rheinmetall AG, Manitowoc and Airbus
- Recent roles in Middle East
- German citizen, PhD in System Modelling & Numerical Optimisation

Commenced 1 August 2022



Clive Cuthell, CFO

- Over 15 years as CFO, in global industrial businesses
- Previous experience includes Holcim and Nuplex
- British / Australian citizen, Chartered Accountant for 25 years

Commenced 5 September 2022

Agenda

CEO Actions from Strategic Review

H1 Financial Results and Funding Update

Outlook

Q&A

Andreas Schwer

Clive Cuthell

Andreas Schwer

Andreas Schwer and Clive Cuthell

CEO Actions from Strategic Review

The first half result has been disappointing - a Comprehensive Program of Change has been established

Actions arising from Strategic Review:

- Renew the leadership team and add managers with deep 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 with fewer resources
- More closely align R&D spending with commercial investment criteria
- Improve sales and marketing effectiveness in Asia, Europe and the US
- Prioritise capital towards core defence and space businesses and immediately implement the external investment model for SpaceLink



Comprehensive Program of Change

1. Revisit strategy and approach to market
2. Restructure and reorganise portfolio & teams
3. Improve processes and secure indirect savings

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Comprehensive Program of Change (1/3)

1. Revisit of Company Strategy & Approach to Market

A. Cash Management: Immediate stop of discretionary cash drain into non-profitable businesses.

B. Scope of Business & Product Portfolio: Concentration of business with two strategic pillars:

1. Remote Weapon Stations & Turrets
2. Directed Energy for Ground Warfare, Ground-to-Air and Ground-to-Space warfare applications in addition to the traditional EOS Space Awareness/Intelligence business

C. Revised Market Approach:

- Domestic market: (1.) Exploiting national defence funds in research & development and (2.) “**Buy Australian**”
- NATO markets: Stop OEM approach. Instead, team with respective national champions or employ a licencing model
- Non-NATO markets: Down-scale existing high-end products to generate an affordable product range for 2nd tier markets
- Middle East markets: Creation of local JVs & acquisition of local funds for new product development and local production

Comprehensive Program of Change (2/3)

2. Restructuring / Reorganisation

A. Portfolio Assessment:

- **SpaceLink:** Ongoing negotiations with strategic investors. Deadline: end 2022
- **EM Solutions:** Very profitable, independent, attractive business

B. Reorganisation

- **Right-Sizing:** Execution of a group wide programme to reduce total workforce by 30%
- **Management:** Recruit key personnel with strong commercial background and industrial experience
- **Lean Organisation:** Reduction of hierarchy levels and merger of departments across all levels

Saving: \$20m/year

Comprehensive Program of Change (3/3)

3. Processes & Indirect Savings

A. Working Processes:

- Adaptation of working processes to the new, simplified organisation structure in order to increase overall efficiency and responsiveness. Introduction of granular labour cost tracking by project. Savings: to be analysed

B. Reduction in number of Operating Sites/Facilities:

- Closure of one facility in AUS: Queanbeyan Monaro St → Hume St
- Closure of one facility in USA: Tucson (Arizona, US) → Huntsville (Alabama, US)
- Reduction in HQ facility size by 50%

Saving: \$1.5m/year

C. Other indirect Savings:

- Ongoing analysis on identification and realisation of indirect savings, mainly in ...
 - Travel Cost
 - Consultancy
 - Insurance
- Expected savings: \$0.2m per month.

Total indirect savings: \$3.5m/year



H1 2022 Results



Performance Overview – Key Indicators

The first half result has been disappointing

Six months ended 30 June	\$m	2022	2021
Revenue		53.8	97.8
EBITDA (Loss)		(34.7)	(0.3)
Impairments & Provisions		(58.2)	-
Operating Loss		(98.9)	(11.7)
Cash (used in) / from Operations		(17.1)	4.6
Cash held 30 June		13.8	59.3

The underlying EBITDA Loss result was driven by:

- Revenue reductions on prior year, caused by customer delays, supply chain challenges, and the impact of some rework
- Excessive costs, including SpaceLink costs expensed and general overheads

Product margins were steady, year-on-year

Impairments were recorded following a detailed review in accordance with Accounting Standards

A detailed reconciliation from Operating Loss to EBITDA is included in the Appendix

EBITDA: Underlying 1H Performance Drivers

The main 1H challenges relate to timing of sales revenue

1. Customer Delays

- Delayed customer contract awards & administration
- Market-wide increase in national security activity

Market growth expected to accelerate in 2023 & 2024

2. Supply Chain Challenges

- Impacting EOS, suppliers & customers
- Delaying all aspects of activity – sales, production, delivery

Some constraints are easing
Reviewing opportunities

3. Re-work

- All customer quality standards met
- Voluntary recall of parts supplied to customer
- Impacted production efficiency & schedule

Not expected to recur

4. Excessive Cost Base

- Legacy overhead cost base assumed significant ongoing revenue growth
- Costs too high for current business scale

Target \$25m pa Cost Reduction pa

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SpaceLink Impairment

The investments in SpaceLink have been fully provided against

Context

- Since Q2 2020 the SpaceLink business model has required sale of SpaceLink equity to fund the capital-intensive satellite acquisition and launch phase
- Changes in capital markets since 2020 have reduced the available capital pool and increased capital costs for space ventures
- Strategic review requires a focus on core business and sets limits on cash outlays to support SpaceLink and imposes deadlines for achieving co-investment

Actions taken / Underway

- The SpaceLink investment has been written down by provisions totalling \$54.4m
- Further cash investment will be restricted
- EOS continues discussions with strategic and financial investors

Future Actions

- The accounting treatment for Spacelink will be monitored. Depending on the outcome of discussions with strategic and financial investors, it may in future be necessary to reverse the impairment provisions recorded in future periods

Company Financing

The legacy debt has been refinanced and Stage 2 refinancing discussions are underway

The Company has been in discussions with a longstanding major equity investor, Washington H. Soul Pattinson ('WHSP'), and has completed Stage 1 of a funding project. The Company & WHSP expect to continue working together with the intention of finalising and implementing additional funding support for the company.

The result of Stage 1 of this funding work is that the company has executed arrangements with WHSP to provide the following:

Debt:

- \$35m debt facility was repaid to RNC, with new \$35m facility established with WHSP.
- New facility is for 21 days, under same terms. Both parties intend to proceed while work on further funding opportunities continues.
- The Company expects to seek further extensions from WHSP as part of Stage 2 of refinancing the Company (although, there can be no guarantee that such extensions will be obtained).

Working Capital:

- \$20m facility, including initial committed \$15m drawdown, plus \$5m at the discretion of WHSP and subject to conditions precedent.
- Interest is at 15% per annum and 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.

These arrangements with WHSP represent a strong first step to secure the Company's funding position. Stage 2 of the funding work is currently continuing, with the aim of establishing a secure financial foundation for future growth. There is no guarantee that this funding work will be successful.



Outlook & Conclusion

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Outlook

- 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.
- 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.

Conclusion – Key Actions are Underway

After a challenging 1H, Key actions are underway

Conclusion

- 1H 2022 has been challenging
- EOS is under new management
- Further work to complete Stage II of refinancing is underway
- The market is expected to improve in 2023 & 2024

Key Actions – Near Term

- | | |
|--|------------|
| 1. Continue Funding discussions and complete Stage II of refinancing | Sep 22 |
| 2. Implement Comprehensive Program of Change, including Cost Reduction | Sep/Oct 22 |
| 3. Complete detailed review of revenue outlook | Sep/Oct 22 |
| 4. Conclude SpaceLink investor/partner discussions | Dec 22 |



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Questions



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Thank You



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Appendices

Detailed Financial Information - EBITDA Reconciliation

Period ended 30 June	\$m	2022	2021
Loss for the period		(98.9)	(11.7)
Add back income tax benefit / (expense)		6.6	(2.9)
Loss before tax		(105.5)	(8.8)
Impairment of assets & Onerous contracts		(58.2)	-
Finance costs		(6.2)	(2.9)
EBIT excluding impairment loss & onerous contracts		(41.1)	(5.9)
Depreciation and amortisation expense		(6.4)	(5.6)
EBITDA excluding impairment loss & onerous contracts		(34.7)	(0.3)

Detailed Covenant Information

Covenant	Calculation	Minimum ratio
Asset Coverage Ratio	A:B, where: <ul style="list-style-type: none"> (a) The net assets of the Group excluding intangible assets (b) B means the aggregate of: <ul style="list-style-type: none"> (i) the Outstanding Amount under borrowing & related facilities, (ii) the aggregate face value of all bonds or other instruments issued; 	Not less than 1.8
Cash Inflow Ratio	A:B, where: <ul style="list-style-type: none"> (a) A means, for a month, the total actual cash inflows of the Group; and (b) B means, the total cash inflows of the Group forecast for the equivalent month in the Initial Cashflow Forecast provided to the lender 	Not less than 0.9
Cash Outflow Ratio	A:B, where: <ul style="list-style-type: none"> (a) A means, for a month, the total cash outflows of the Group; and (b) B means, the total cash outflows of the Group forecast for the equivalent month in the Initial Cashflow Forecast provided to the lender 	Not more than 1.1

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