



EOS Growth Accelerates to Exceed 45% Beyond 2020

Canberra, 30 May 2019

Electro Optic Systems (ASX: EOS) has secured sufficient orders and market momentum to maintain a compounding growth rate of over 45% beyond 2020.

In the full financial year ending 31 December 2018 the company achieved EBIT of \$15.1 million, with \$7.4 million derived from normal operations and \$7.7 million from exchange rate gains. The 2018 profit was sheltered from tax by accumulated losses brought forward. On the current profit trajectory, all tax shelter accumulated in previous years will be utilized during 2019.

The company is on track to deliver EBIT of around \$20 million for 2019, as previously forecast. This represents an increase of around 180% in EBIT from normal operations [\$7.4 million] in 2018.

EOS “backlog” is defined as unfulfilled contracts and new contract awards in contract execution pursuant to a completed tendering process. At 31 December 2019 the company expects backlog to exceed \$600 million. This backlog is enough to fund over 45% compound growth in both EOS revenue and profit for 2020 and 2021, over 2019 levels, with no reliance on new contract awards.

Based only on delivery commitments in this backlog, revenue for the financial year ending 31 December 2020 is expected to increase to around \$230 million, and EBIT to around \$28 million. Even stronger growth [50%] in 2021 is indicated.

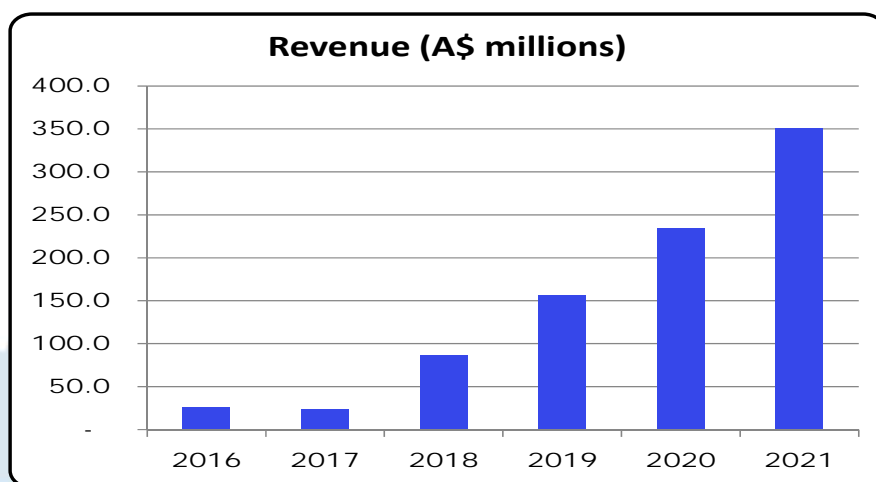


Figure: EOS Revenue Growth Based on Current Backlog

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Growth may be higher than currently forecast.

EOS currently has over \$2.4 billion of tenders under consideration by existing EOS customers. This is expected to increase to over \$3 billion by 31 December 2019. These tenders are subject to lengthy review and award processes but at least 50% [\$1.6 billion] will be awarded during 2020 and 2021. The company expects to achieve substantial contract awards going forward to support even higher growth.

Dr Ben Greene, the Group CEO of EOS said:

“The expected 180% increase in profitability through 2019 is driven by improved plant utilization in EOS Defence Systems, reduced losses from EOS Space Systems, and improved commercial yield from previously-expended investments in research and development.”

“All currently-forecast growth after 2019 comes from EOS’ defence sector. The space sector has sufficient progress in contract awards to ensure future profitability but contract negotiations are not sufficiently mature to forecast with confidence the scale or timing of future profits.”

“Meanwhile the EOS defence sector is surging. On present indications the market EOS has created for next-generation weapon systems will reach \$16 billion over the period 2018-2030. EOS expects its long-term market share to exceed 35%, as forecast previously.”

“There is upside uncertainty in the nominal 45% compound growth forecast for EBIT, particularly after 2020, associated with space sector success and new defence contract awards over the next two years. The submission of billions of dollars of tenders and proposals with existing customers allows EOS to make informed assessments on the prognosis of each submission. Significant new awards are expected during 2020 and 2021.”

“There is also downside uncertainty in the nominal 45% compound growth forecast for EBIT associated with how EOS responds to numerous opportunities to grow faster, and for longer. In particular, to maintain very strong growth beyond 2021, EOS may make discretionary outlays in its defence and space sectors before 2021 for expanding production capacity, developing new products or product variants, diversifying the supply chain to achieve offsets, and increasing marketing efforts.”

“EOS remains focused on the fundamental objective of building a strong engine for reliable profit growth. The company aims to maintain growth around current guidance by offsetting investments in higher growth with profits from new business not currently in backlog. There will be complex timing issues to resolve in this process.”

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ABOUT ELECTRO OPTIC SYSTEMS (ASX: EOS; OTC: EOPSY)

EOS operates in two sectors: Defence Systems and Space Systems.

- EOS Defence Systems specialises in technology for weapon systems optimisation and integration, as well as ISR (Intelligence, Surveillance and Reconnaissance) for land warfare. Its key products are next-generation vehicle turrets and remote weapons systems.
- EOS Space Systems specialises in applying EOS-developed optical sensors to detect, track, classify and characterise objects in space. This information has both military and commercial applications, including managing space assets to avoid collisions with space debris, missile defence and space control.