



EOS Communication Systems Acquires EM Solutions

Canberra, 1 October 2019

Electro Optic Systems (ASX: EOS) has agreed to acquire space communications company EM Solutions Pty Limited (EMS), a leading Australian technology company in the field of microwave satellite communications. EMS is based in Brisbane.

EMS will form part of EOS Communication Systems.

EOS recently announced (30 September 2019) that it had achieved a number of advances which together enable next-generation optical communication to and from space at bandwidths up to 20 times higher than microwave technology, and at lower cost. However the company has long recognised that over \$400 billion is currently invested in microwave communication infrastructure in space, and that this sunk cost and the all-weather capabilities of microwave technology will ensure a long-term role for microwave technology in space communications.

EMS is a world leader in on-the-move satellite communications. It is a major provider of satellite communication systems for the Australian Defence Force, including Royal Australian Navy ships, and has been widely recognised for its advanced technology, winning awards such as the Essington Lewis Trophy (2018) Department of Defence SME Team of the Year for innovation in defence communication.

EMS' on-the-move radio and satellite products deliver high speed telecommunications anywhere in the world to its customers. It is a trusted provider of secure and resilient communications for key customers such as defence forces and government agencies internationally.

EOS has acquired 100% of all issued shares in EMS in exchange for 4,271,357 EOS ordinary shares and a cash payment of \$1.485 million. These new 4,271,357 ordinary shares will generally be subject to a six month escrow period. At the average EOS share price for September, this values EMS at approximately \$26 million.

Although fundamentally a strategic acquisition, this transaction will immediately be earnings-per-share accretive to EOS because on its existing contracts EMS will contribute a higher proportion of EOS EBIT in FY2020 than the proportion of EOS' fully diluted shares issued as consideration.

EMS is presently achieving EBIT growth around 10% and EOS expects to accelerate this growth. EOS' own forecast of growth exceeding 45% for the next two years will not be reduced by this acquisition.

EMS will immediately form an Australian base for EOS' new Communication Systems business, adding to EOS' existing Defence Systems and Space Systems business segments. The EMS senior management team of Dr Rowan Gilmore [CEO], Dr John Ness [CTO] and Mr Peter Bradley [Chief Engineer] will maintain their roles in EMS as EOS executives. EMS staff, now numbering over 50, will be expanded.

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EMS Cobra Products for On-The-Move Satellite Communications

EMS has sector-leading products. EOS plans to expand the market reach of these products through its own customer network, and add space-based and optical communication capabilities to EMS' ground-based technology. This will allow EOS Communication Systems to provide a broad range of communications solutions to existing EMS and EOS customers, as well as the broader market.

EOS will now offer customers globally a range of proven communication solutions which are both leading edge and future-proofed. These products will offer EOS customers a secure transition to the future of ultra-broadband space communications.

EOS estimates that of \$400 billion of space communications infrastructure which must be renewed in the next 20 years, at least \$120 billion will require a combination of performance features across microwave and optical domains which EOS is now equipped to provide. The leading edge of this \$120 billion in procurements is imminent. EOS will compete in this market.

In addition to its role in anchoring the new EOS Communication Systems segment in Australia, EMS will immediately provide a platform for expansion of EOS' other business segments. EOS Space and Defence segments are currently limited by access to suitable researchers, scientists, engineers and technicians and adding a Brisbane site of operations to these rapidly-growing businesses will increase the catchment pool for their recruitment by 300%.

Recruitment for those other EOS businesses in South East Queensland has already commenced.

CEO of EM Solutions Dr Rowan Gilmore said:

"EM Solutions is delighted to become a part of the EOS Group. For our customers, the new group offers a deeper capital base, access to further leading edge research, and much greater support capability offshore.

For the Australian Defence Force, the new entity provides an even stronger sovereign capability in future communications. We look forward to continuing to develop and improve our existing suite of on-the-move satellite communications products and flat panel antennas while now investing in future space communications technology as part of EOS."

Speaking on the acquisition of EMS, Dr Ben Greene, Group CEO of EOS said:

"EOS is extremely pleased to join forces with EMS to address next-generation space communication needs. The culture of excellence and innovation which EMS has developed and maintained aligns well with EOS' own values.

Global investment in infrastructure for microwave and RF communications exceeds \$1 trillion, and over \$400 billion of this is directly associated with communications to, from or in space. All of the space infrastructure must be replaced in the next 20 years, and around 30% (\$120 billion) will require performance not achievable by microwave technology alone.

The vast scale of the existing investment and the reliability required of any technical solution make this a conservative market. Regardless of its merits any disruptive technology must be eased into this market, not imposed. EOS has valuable new contributions to make, but a crafted approach to the space communications market was required.

EMS is a respected provider of microwave and RF technology for space communication and provides a strategic bridge between EOS and the current space communications market. It will now offer products allowing customers to safely invest in microwave technology with secured access to EOS optical technologies in the future.

In recent years EOS has developed responsive production processes which allow rapid ramping up and down of production for aerospace products. Access to these processes and EOS' global supply chain will support efficient expansion of the communications business.

This acquisition immediately establishes EOS as a credible provider for a portion of the \$120 billion of space communication infrastructure and equipment to be replaced over the next 20 years. EOS intends to expand this portion to embrace most of the identified market by 2023. EOS will leverage its agile business processes and its advanced technology, now including EMS innovation, to provide strong market differentiation and competitive advantages in this \$120 billion market."

Further information:

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

EOS operates in three sectors: Defence, Space and Communication

- 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 weapon 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.
- EOS Communication Systems specialises in innovative optical, microwave and on-the-move radio and satellite products that help to deliver high speed, resilient and assured telecommunications anywhere in the world.