



Electro Optic Systems Holdings Limited

ACN 092 708 364

T +61 2 6222 7900

F +61 2 9232 3411

A Suite 3, Level 12, 75 Elizabeth Street, Sydney, NSW 2000

eos-aus.com

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

New orders and market momentum driving upgraded FY2020 guidance and announcement of equity raising to support future growth

Canberra, 21 November 2019

Electro Optic Systems Holdings Limited (**EOS** or **Company**) (ASX: EOS) announces new orders and market momentum which is expected to drive a significant upgrade to EOS' forecast underlying EBIT growth rate for the 12 months ending 31 December 2020 (**FY2020**) as compared to the 12 months ending 31 December 2019 (**FY2019**) to ~70% (from previous guidance of ~45% growth). EOS is also pleased to announce an institutional placement of new fully paid ordinary shares in EOS (**New Shares**) to raise \$68 million to support revised EBIT guidance and to fund ongoing growth initiatives and working capital requirements.

Key points:

1. The backlog of confirmed orders and contracts in process is expected to grow to ~\$630 million by 31 December 2019, despite increased conversion of backlog to revenue throughout 2019.
2. The pipeline of tenders and contracts in negotiation is developing rapidly, with ~\$2 billion of contract awards for current products expected over the three years to December 2022.
3. EOS reaffirms its forecast EBIT of \$20 million for FY 2019.
4. Underlying EBIT for FY2020 was previously forecast to be \$29 million. Underlying EBIT is now expected to grow to around \$33-35 million for FY2020, representing an increase in previous guidance of ~17%⁽¹⁾. Underlying EBIT is earnings before interest and tax excluding earnings from the acquisition of EM Solutions Pty Ltd which was completed by EOS in 2019.
5. Revised underlying EBIT guidance for FY2020 represents an anticipated growth rate of ~70% from FY2019 (from previous guidance of 45% growth) ⁽¹⁾.
6. Actual EBIT for FY2020 *including* contribution from the acquisition of EM Solutions Pty Ltd which was completed by EOS in 2019 is expected to be in the range \$36-38 million, with an EBIT margin of ~15%.
7. On their current trajectory, backlog, margins and pipeline are expected to support growth around this level beyond FY2020.
8. Announcement of a \$68 million fully underwritten institutional placement of New Shares at an offer price of \$6.66 per new EOS share, representing a 0.8% premium to the last closing price of EOS shares on the ASX. Following completion of the placement, EOS intends to extend an opportunity to eligible shareholders to

subscribe for Shares by way of a non-underwritten share purchase plan to existing eligible shareholders to raise a maximum of \$10 million.

(1) Based on the midpoint of FY2020 EBIT guidance, excluding contribution from 2019 acquisition of EM Solutions Pty Ltd.

This increase in growth is due to EOS achieving alignment of *demand* and *capacity* at a higher threshold, while operating with an acceptable level of risk.

Demand

Demand for EOS technology products is expanding. It is expected that backlog at 31 December 2019 will grow to ~\$630 million, despite high backlog conversion to revenue during FY2019. Orders are incoming faster than EOS is presently executing them and this is expected to continue in FY2020 despite ~70% revenue growth expected in that year.

In addition EOS is experiencing a surge in demand due to the successful deployment of drones to attack infrastructure in the Middle East over the past year. EOS has developed a comprehensive drone kill capability, comprising five different drone kill systems operating from a single control system. These systems have been comprehensively tested over two years by key users and are nearing service.

The counter-drone market is expected to potentially exceed the market for weapon systems by 2022.

Capacity

EOS seeks to control the risks associated with high growth increments before accelerating output to meet demand. Risk mitigation is of critical importance to EOS, as mentioned recently during our half-yearly results released on 30 August 2019 and at the annual general meeting on 31 May 2019.

During FY2019 EOS achieved high quality output from its Australian plant at sustained output rates corresponding to ~\$35 million EBIT (i.e. top end of FY2020 underlying EBIT guidance). From 2020 new plants in USA, UAE and Singapore will start to come on line deploying the same production technology to provide reliable, resilient and scalable capacity that better leverages local strengths and global resources.

EOS expects to bring one new plant on line each year from 2020 to 2022 inclusive.

Dr Ben Greene, the Group CEO of EOS said:

“EOS’ key objective for FY2019 was to achieve EBIT growth to \$20 million while systematically addressing risks associated with the next stage of the Company’s growth. We are now sufficiently confident that this objective has been achieved therefore the Company is relaxing some constraints to allow higher growth.

EOS has raised its previous forecast EBIT for FY2020 from \$32 million to \$36-38 million (taking into account contributions from the 2019 acquisition of EM Solutions Pty Ltd). This implies a growth rate of ~70% ⁽¹⁾. EOS has already tested its capacity at this FY2020 level and is holding all the contracts it requires to escalate output.

Market demand for EOS advanced technology could support growth around this level beyond 2020. Significant investment and effort has been deployed towards matching capacity with potential demand beyond 2020.

If this growth rate is maintained through 2021, EOS will need additional plant capacity to allow fulfilment of demand by the end of 2022. Our three new defence plants in UAE, USA and Singapore are on track to lift total capacity to \$900 million annual revenue by 2022. EOS is also considering alternatives such as licensed production to add further scalable capacity should it be required.

Most of the forecast EBIT growth is based on the growing EOS defence sector where supply chain capacity and availability of skilled staff constrain further accelerating growth. However, the EOS Space and Communications segments offer different growth models with less reliance on skilled staff and supply chain, and potentially higher margins due to large capital investments already made and expensed. These segments are well positioned in key markets and offer potentially stronger growth going forward while maintaining or improving margins.”

(1) Based on the midpoint of FY2020 EBIT guidance, excluding contribution from acquisition of EM Solutions Pty Ltd.

Placement

EOS is undertaking a fully underwritten institutional placement of New Shares to eligible institutional investors, to raise \$68 million, to support future business growth (**Placement**). The Placement will be conducted utilising the Company's available placement capacity pursuant to ASX Listing Rule 7.1, resulting in EOS issuing a maximum of 10,144,224 New Shares.

The Placement Price for each new EOS share of \$6.66 represents a 0.8% premium to the last closing price of EOS shares on ASX on Wednesday, 20 November 2019, being \$6.61.

No shareholder approval is required for the issue of New Shares under the Placement.

EOS' Shares will remain in a trading halt today while the Placement is conducted. Normal trading in EOS Shares is expected to resume on Friday, 22 November 2019 or such earlier time as the completion of the Placement is announced to the market.

The Placement is fully underwritten by Citigroup Global Markets Australia Pty Limited.

Share Purchase Plan

Following completion of the Placement, EOS will conduct an offer of New Shares under a share purchase plan (**SPP**) to existing shareholders in the Company with a registered address in Australia or New Zealand as at 7.00pm (Sydney, Australia time) on Wednesday, 20 November 2019, and who are not in the United States or acting for the account or benefit of a person in the United States.

The SPP will provide each eligible shareholder with the opportunity to apply for up to \$30,000 of New Shares at the lower of (i) the price payable per New Share in the Placement, and (ii) the price that is equal to the VWAP of EOS shares on the ASX over the five trading days up to, and including, the day before the issue of New Shares under the SPP (rounded down to the nearest cent).

The SPP will raise a maximum of \$10 million and applications that exceed that amount will be scaled back.

The SPP offer booklet (**SPP Offer Booklet**) containing further details of the SPP will be released separately and will be mailed to all eligible shareholders in Australia and New Zealand on or about Wednesday, 27 November 2019.

For further information regarding the SPP, you should contact the EOS Offer Information Line on 1300 855 080 between 8.30am and 5.30pm (Sydney, Australia time) from the date the SPP opens, being Wednesday, 27 November 2019.

Each New Share under the Placement and SPP will rank equally with existing Shares on issue.

EOS will seek quotation of the New Shares issued under the Placement and the SPP on ASX.

Timetable

Event	Date (2019)
Record date for eligible shareholders to subscribe for New Shares via the SPP	7.00pm (Sydney time), Wednesday, 20 November
Trading halt request and announcement of Placement and SPP	Before market open on Thursday, 21 November
Conduct of Placement	Thursday, 21 November
Announcement results of Placement	Before market open on Friday, 22 November
Trading halt lifted and trading resumes	Friday, 22 November
Settlement of Placement	Wednesday, 27 November

SPP Offer Booklet dispatched to eligible shareholders	Wednesday, 27 November
SPP opens	Wednesday, 27 November
Issue of New Shares under the Placement	Thursday, 28 November
SPP pricing period	Tuesday, 3 December – Monday, 9 December
SPP closes	5.00pm (Sydney time), Monday, 9 December, unless extended
Issue of New Shares under the SPP	Friday, 13 December
Dispatch of holding statement and normal trading of New Shares issued under the SPP	Monday, 16 December

These dates are indicative only and are subject to change. EOS reserves the right, subject to the Corporations Act 2001 (Cth) and the ASX Listing Rules, to amend this indicative timetable. In particular, EOS reserves the right to extend the closing date for the SPP, accept late applications under the SPP (either generally or in particular cases) and to withdraw or vary the Placement or SPP without prior notice. Any extension of the closing date for the SPP will have a consequential effect on the date for the issue of New Shares. EOS will consult with the underwriter in relation to any proposed change to this indicative timetable and any such change will require the consent of the underwriter.

Further information:

Ben Greene

Group CEO

+61 414 365658

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

EOS operates in three sectors: Defence, Space and Communications

- **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.

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

This announcement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States. The New Shares to be offered and sold in the Placement and the SPP have not been, and will not be, registered under the United States Securities Act of 1933 (the **U.S. Securities Act**), or the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Shares may not be offered or sold to persons in the United States, unless they have been registered under the U.S. Securities Act, or are offered and sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws.

This announcement contains certain "forward-looking statements" including statements regarding EOS' intent, belief or current expectations with respect to EOS' business and operations, market conditions, results of operations, financial condition, and risk management practices. The words "likely", "expect", "aim", "should", "could", "may", "anticipate", "predict", "believe", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Forward-looking statements in this announcement include statements regarding the outcome and effects of the Placement and the SPP and statements regarding EOS' future financial performance and results. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. This announcement contains such statements that are subject to risk factors associated with an investment in EOS. Forward-looking statements involve known and unknown risks, uncertainties and assumptions and other important factors that could cause the actual results, performances or achievements of EOS to be materially different from future results, performances or achievements expressed or implied by such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this announcement.

Investors should be aware that financial data in this announcement include "non-IFRS financial information" under ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information* published by ASIC. Non-IFRS financial information in this announcement include earnings before interest and tax. EOS believes this non-IFRS financial information provides useful information to users in measuring the financial performance and conditions of EOS, however such financial information does not have a standardised meaning prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. Investors are cautioned, therefore, not to place undue reliance on any non-IFRS financial information included in this announcement.