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Business update; equity raising to enhance liquidity and fund ongoing growth

Canberra, 15 April 2020

Electro Optic Systems Holdings Limited (“EOS” or “Company”) (ASX: EOS) has announced an update on its business operations and an institutional placement of ~\$134 million to enhance liquidity and continue to fund ongoing growth.

Key points

- Backlog and pipeline expectations unchanged, with increased momentum of acquisition activity in key customer programs.
- Logistical issues causing delivery and payment delays under some existing contracts despite full funding with irrevocable letter of credit.
- Award of a material new contract from an existing customer expected within weeks, with no delivery or payment disruptions and on prompt payment terms.
- FY2020 EBIT guidance revised to \$27 million representing EBIT growth of 25%, reflecting decision to defer \$9 million of EBIT relating to contracts with assumed disruption to delivery and payment.
- Raising ~\$134 million via a fully underwritten institutional placement¹ of new fully paid ordinary shares (“Placement”) to fund working capital for inventory expansion, investments to maintain growth, additional liquidity and transaction costs.
- Upon resumption of payments under delayed contracts, expectation of significant funding flexibility to continue to pursue growth opportunities.

Business Update

Backlog and Pipeline

- **Backlog:** To date, no customer has indicated any intent to cancel or diminish any contract already in effect. EOS considers contract cancellations or diminution unlikely as the contracts support long-term programs in allied or coalition governments.
- **Pipeline:** EOS' \$3 billion pipeline of potential contract awards is unchanged. There is an increased level of acquisition activity from key customer programs reflecting their desire to protect suppliers of defence equipment.
- EOS is in the final stages of award for a material contract from an existing customer. This expected contract includes accelerated payment terms which this customer has offered to all suppliers to mitigate the impact of the COVID-19 pandemic on its supply chain.

¹ Excludes funds raised through the non-underwritten SPP.

Staff

- EOS taking all reasonable precautions to protect the health of its 450 strong global workforce. With the exception of production and IT staff, essentially all EOS staff are working from home. As at 14 April 2020, no EOS staff member has tested positive to COVID-19.

Logistics

- EOS normally generates ~90% of revenue from exports and this business model requires functional transport and logistical links.
- Closure of key international air transport hubs, reduction or elimination of commercial flight operations, long quarantine periods entering and leaving most countries, and closure of many government offices globally are collectively requiring significant adjustments over the medium-term to the way EOS delivers its products and services.
- Presently, EOS can produce products to meet all contracted requirements, but for some delivery is delayed. These delays do not impact revenue recognition, but cash receipts have been materially impacted as they are usually based on delivery and acceptance.

Production

- To mitigate potential impact of COVID-19 on Australian production, EOS has divided its single shift into two equal shifts which do not occupy the plant at the same time. This arrangement has temporarily reduced output by 20%, however adjustments are in process to restore output without reducing staff protection levels.
- No changes to production plans at the Company's US, UAE and Singapore plants which are due to enter production in July 2020, 2021 and 2022 respectively.
- Management decision to transition production from Q3 FY2020 to contracts without delivery or payment disruptions to sustain plant capacity and supply chain.

Supply Chain

- No major delays or disruptions to EOS' supply chain have occurred so far, and EOS is holding a large parts inventory because it has not yet consumed the large volume of parts acquired to meet the 70% EBIT growth target adopted in November 2019. Parts are currently in hand for more than three months of full production in Australia.
- EOS has temporarily stopped issuing new part orders for contracts that are experiencing significant delivery and payment delays. This is not a sustainable position as EOS expects demand for its products to expand significantly from FY2020, and the proven supply chain is absolutely essential to meet that demand.

Outlook Update

As a result of the current and potential impacts of COVID-19 on EOS, management have taken decisive and pre-emptive action to balance:

- Temporary cash outflows associated with producing goods under some contracts with delivery and payment constraints; and
- Importance of sustaining capacity in both EOS and its supply chain through FY2020 to return to high growth using existing EOS backlog and a resilient pipeline of government programs in FY2021. One key government customer has already taken a similar view

and brought forward sufficient demand from EOS' pipeline to retain supply chain capacity, with the contract with EOS expected to be executed within 30 days.

EOS has consequently deferred approximately \$70 million in production and associated revenue and \$9 million of corresponding EBIT. These amounts are expected to be received in FY2021. These deferrals relate to products which face delivery disruption.

Revised guidance is for \$230 million in revenue and \$27 million EBIT for FY2020. This represents 25% growth over FY2019 EBIT of \$21.7 million (excluding FX gains) and assumes that no existing contracts are cancelled, the award of a new material contract and that the most severe impacts of COVID-19 are contained within FY2020.

EOS to date has produced over \$60 million of product for which delivery has been disrupted and payment delayed. EOS plans to continue production from April to July 2020 for these government customers at a cash cost of up to \$55 million (with more than \$140 million of receivables associated with these delayed deliveries expected to be received from Q4 FY2020). This continuation will maintain capacity in both EOS and its supply chain whilst allowing a smooth transition to a new contract with unimpaired delivery and payment from July / August 2020.

The outlook for FY2021 is for strengthening growth as activity deferred from FY2020 is caught up, backlog is processed and pipeline awards are made.

Upon resumption of payments under delayed contracts, EOS expects to have significant funding flexibility to continue to pursue value-accretive growth opportunities.

Funding Update

Following the production of over \$60 million of deliverable product for which delivery has been disrupted and payment delayed, EOS has an unrestricted cash balance of \$43 million as at 14 April 2020.

EOS is taking pre-emptive and decisive action by raising ~\$134 million via a fully underwritten institutional Placement² to fund the following:

- ~\$55 million to produce goods from April to July 2020 assuming cash receipts for this effort will be delayed to Q4 FY2020;
- ~\$31 million to fund investments to maintain momentum through FY2021 in high growth areas of communications and counter-UAS products;
- ~\$14 million to fund investments to move company operations to a post-pandemic paradigm allowing secure and classified work and operations across IT networks; and
- ~\$34 million retained to provide additional cash liquidity, optionality to pursue growth opportunities and to fund transaction costs associated with the Placement.

Following the Placement, EOS expects to have sufficient cash to generate \$27 million EBIT and produce ~\$140 million of billable goods within FY2020 for which cash payment is expected

² Excludes funds raised through the non-underwritten SPP.

to be received from Q4 FY2020, while at all times throughout FY2020 maintaining a sufficiently positive amount of unrestricted cash.

EOS has also agreed a \$15 million line of credit from EFIC providing additional funding headroom. EOS has not drawn any debt facility to this point. There remains the potential to consider additional debt facilities.

Equity Raising Detail

Placement

EOS is undertaking a fully underwritten institutional Placement of new fully paid ordinary shares in the Company (“New Shares”) to eligible institutional investors, to raise ~\$134 million to enhance liquidity and continue to fund its ongoing growth.

The Placement will be conducted utilising the Company's available placement capacity pursuant to ASX Listing Rule 7.1 as increased by the ASX Class Waiver dated 31 March 2020 (“Class Waiver”), resulting in EOS issuing 28,269,553 New Shares.

The Placement Price for each new EOS share of \$4.75 represents a 17.4% discount to the last closing price of EOS shares on the ASX on Monday, 14 April 2020, being \$5.75, and a 10.9% discount to the 5 day VWAP of \$5.33.³

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 Thursday, 16 April 2020 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 Tuesday, 14 April 2020, 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).

³ 5-day Volume Weighted Average Price (VWAP) from 6 April 2020 to 14 April 2020 (inclusive).

The SPP will raise a maximum of \$10 million and applications that exceed that amount will be scaled back (on a pro rata basis, as per the Class Waiver).

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, 22 April 2020.

Further information regarding the SPP will also be available via an EOS Offer Information Line with details to be made available imminently.

Each New Share under the Placement and SPP will rank equally with existing Shares on issue. No shareholder approval is required for the issue of New Shares under the SPP.

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

Equity Raising Timetable

Event	Date (2020)
Record date for eligible shareholders to subscribe for New Shares via the SPP	7.00pm (Sydney time), Tuesday 14 April 2020
Trading halt request and announcement of Placement and SPP	Wednesday 15 April 2020
Placement opens	Wednesday 15 April 2020
Announcement results of Placement, trading halt lifted, trading resumes	Thursday 16 April 2020
Settlement of Placement	Monday 20 April 2020
Issue and trading of New Shares under the Placement	Tuesday 21 April 2020
SPP offer opens and SPP Offer Booklet dispatched to eligible shareholders	Wednesday 22 April 2020
SPP pricing period	Monday 4 May 2020 to Friday 8 May 2020
SPP closes	5:00pm, Friday 8 May 2020
Issue of New Shares under the SPP	Thursday 14 May 2020
Dispatch of holding statement and normal trading of New Shares issued under the SPP	Friday 15 May 2020

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:

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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 Communications 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.

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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.