



**Electro Optic Systems Holdings Limited**

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**31 July 2020**

## **ACTIVITY STATEMENT FOR THE QUARTER ENDING 30 JUNE 2020**

### **COVID-19 Update**

As the COVID-19 situation continues to evolve in Australia and globally, our highest priority remains the health and safety of all our employees and their communities.

As at 31 July 2020 two of four EOS production facilities globally have experienced COVID-19 positive test outcomes:

- i. In the US one EOS staff member tested positive to COVID-19 and after two weeks in quarantine made a full recovery and returned to work. Three other US staff members with potential exposure were isolated and subsequently tested negative for COVID-19 and returned to work.
- ii. In the UAE three staff members have tested positive and after a period of recovery have returned to work.

EOS continues to take all practical measures to prevent infection and reduce the operational impact of any new infection, whilst maintaining positive operating momentum.

The global pandemic has impacted EOS in multiple ways, including increasing supply chain costs, reducing supplier responsiveness, product delivery delays, delays in contract negotiation and execution, access to customers and inefficiencies in staff utilisation.

### **International Logistics and Cash Flow**

Late in Q1 2020 COVID-19 caused a sudden and unexpected disruption of product delivery for a major foreign buyer by breaking the delivery chain in five separate places. These five independent and serious delivery disruptions are moving towards resolution at approximately the rate expected during April 2020 when guidance was last provided. In particular:

- i. Airports are operating at sufficient capacity to allow EOS products to be transported to the customer's country. By 20 August 2020 EOS expects all product intended for delivery in 2020 for this customer to be physically located in the customer's country.
- ii. The EOS production facility in the country, which was closed for months, has now re-opened and up to 40% of staff are permitted to attend work. This facility is required for delivery of the goods.
- iii. The customer's test facilities are now expected to open by late-August, as expected. These facilities are required to complete pre-delivery testing of EOS products.
- iv. Customer-designated delivery points within military bases can now be accessed after several months of closure.
- v. EOS delivery staff from Australia are now permitted to leave Australia to complete the delivery process overseas. The departure of this team will be synchronised with the availability of the customer test facilities, expected in late August.

These developments align reasonably with expectations at the commencement of the shutdowns in April 2020. If these developments continue on this positive trend, deliveries and invoicing could resume in Q4 2020 as previously forecast.

## **Commonwealth RWS Contract**

Negotiations with the Commonwealth of Australia for the acquisition of 251 Remote Weapon Systems and related materiel are on-going. We expect to conclude these to come under contract in Q3, with initial deliveries made in 2020 in line with customer requirements.

A key focus of this accelerated acquisition was the preservation of the Australian supply chain for advanced defence manufacture, and provided momentum is maintained, this will be achieved.

## **US Production of RWS Commences**

EOS Defence US has commenced production at the Huntsville Alabama plant. The first complete units will begin shipping in Q3 for existing large and small contracts, including some orders from US customers which the Company does not yet consider material.

The company now intends to establish initial capabilities in space communication terminals in Huntsville, based on the globally-successful products developed by EOS subsidiary EM Solutions in Brisbane.

Business development activity and the sales pipeline for the US business continues to develop largely in line with management expectations.

## **Space Communications**

During Q2 2020 EOS received all necessary US government approvals to proceed with the establishment of a space communications capability.

We are continuing to complete a preliminary design of the initial constellation to allow the intended customers to assess its suitability for the task of carrying their data, from anywhere-to-anywhere in the world, quickly and securely.

## **Counter-UAS Developments**

EOS has invested significant resources to develop a complete range of capabilities for the defeat of drones. Over the past three years a substantial test program based in Australia, USA and the Middle East has established EOS as the only provider with the entire suite of capabilities required to defeat sophisticated drone attacks.

EOS was recently selected in a wide tender process as the preferred provider of CUAS capability for a large international program. At this time both the contract negotiations and program budget have been disrupted by COVID-19 and there is no certainty when a contract can be completed. In the normal course it would take around six months so it is unlikely this contract can be in effect in 2020.

EOS has moved its directed energy [DE] drone kill system to production, in anticipation of customer demand for this unique capability. This product places EOS at the forefront of the CUAS market globally.

## **H1 and FY Guidance**

The H1 financial results have been materially impacted by COVID-19 with a deferral of revenue and profit into H2 2020. As such EOS expects to report a first half loss of negative \$18.2 million and a net loss after tax of \$12.7 million, but with a considerably stronger and positive second half.

The impacts of COVID-19 on customers, suppliers and EOS itself are injecting volatility into the timing of contracts being signed and delivered, causing a range of potential revenue and profit outcomes for the full year which are difficult to predict at this stage. As a result EOS believes that the FY2020 profit will likely fall in the range of \$20-30 million EBIT, consistent with prior guidance of \$27 million EBIT.

The risk-weighted pipeline remains strong at \$3 billion with the order backlog unchanged. The outlook for FY2021 is for strengthening growth as activity deferred from FY2020 is caught up, backlog is processed and pipeline awards are made. EOS has an unrestricted cash balance of \$128 million as at 30 June 2020.

This announcement has been authorised for release to ASX by Dr Ben Greene, Director.

Further information:

Dr Ben Greene  
Group CEO  
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## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED

**ABN**

95 092 708 364

**Quarter ended ("current quarter")**

30 JUNE 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6.months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	20,836	47,917
1.2 Payments for		
(a) research and development	(535)	(2,205)
(b) product manufacturing and operating costs	(41,782)	(66,196)
(c) advertising and marketing	(355)	(749)
(d) leased assets		
(e) staff costs	(12,442)	(23,273)
(f) administration and corporate costs	(6,202)	(13,535)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	232	392
1.5 Interest and other costs of finance paid	(245)	(472)
1.6 Income taxes paid	(8,637)	(10,286)
1.7 Government grants and tax incentives	1,923	2,242
1.8 Other (provide details if material)	243	243
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(46,964)</b>	<b>(65,922)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(2,613)	(6,583)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(11,009)	(11,009)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6.months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Security deposits	3,470	(3,654)
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(10,152)</b>	<b>(21,246)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	138,562	138,562
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Repayment of lease liabilities	(972)	(1,521)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>137,590</b>	<b>137,041</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	50,024	77,881
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(46,964)	(65,922)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(10,152)	(21,246)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6.months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	137,590	137,041
4.5	Effect of movement in exchange rates on cash held	(2,362)	382
4.6	<b>Cash and cash equivalents at end of period</b>	<b>128,136</b>	<b>128,136</b>

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	8,038	7,175
5.2	Call deposits	120,098	42,849
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>128,136</b>	<b>50,024</b>
<b>Note</b>	<b>Not included in the cash figure above are non-current cash security deposits securing performance bonds, premises and guarantees</b>	<b>14,331</b>	<b>16,145</b>

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	360
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
The amounts included in Item 6.1 includes \$200,846 in salary and other benefits to the CEO. Consulting fees paid to non-executive directors of \$54,000 and \$105,000 paid in directors fees and superannuation to directors and entities associated with non-executive directors during the quarter.		

**Note for 1.1**

In line with previously released guidance that EOS would increase production for contracts already executed, inventory has been significantly increased during the quarter. This increase will continue through Q3 2020 before running down in Q4 2020 as the company converts inventory to revenue and cash in accordance with the achievement of milestones in the contracts.

<b>7. Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	-	-
7.5 <b>Unused financing facilities available at quarter end</b>		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	(46,964)
8.2 Cash and cash equivalents at quarter end (item 4.6)	128,136
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	128,136
8.5 <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	2.7
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: N/A	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 July 2020

Authorised by: Ian Alistair Dennis - Director  
(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.