



Update on Significant Cash Receipt, Financial Guidance and SpaceLink Funding

Canberra, 27 October 2021

Electro Optic Systems Holdings Limited ("EOS" or "Company") (ASX: EOS) has experienced several material developments in its business and finances.

1. Today the Company received \$65 million of cash receipts relating to a major export contract, resulting in total cash at bank in excess of \$100 million, including a \$35 million working capital facility established during the quarter.
2. Recent impacts from COVID-19 and new outlays require the Company to revise downwards the previous financial guidance¹ by \$14 million at the Underlying EBIT level before SpaceLink costs². This revision is primarily driven by the deferral of revenue from two leading defence contracts into 2022.
3. SpaceLink has contracted OHB to manufacture the first constellation of four satellites and the initial tranche of project funding is now underway via a SpaceLink pre-IPO convertible note.

1. COMPANY CASH

In April 2020 EOS raised \$134 million of capital with \$55 million specifically allocated for expansion of inventory or contract assets, to allow EOS production to be held stable during what was expected to be several quarters of delivery disruption. As COVID-19 evolved and its impact extended into 2021, this investment increased to around \$138 million by H1 2021.

In Q1 2021, EOS and its customer began to unwind this investment in contract asset back to EOS cash. In H1 2021 EOS received \$30 million in cash payments for its finished products, reducing the contract asset balance.

Today EOS received a further \$65 million of new cash payments under its largest export contract. EOS has now received over \$95 million of cash payments under this contract during the past 6-months.

¹ See ASX announcement of 30 August 2021 "[Half Year Results Investor Presentation](#)"

² The "Underlying EBIT before SpaceLink costs" is calculated after removing the exchange gain/ (loss) amount from Earnings Before Interest and Tax (EBIT) and adding back SpaceLink Inc. expenses.

Because EOS is producing continuously for this \$440 million contract, the value of the contract asset going forward will vary according to the production, invoicing and payment cycles under the contract. In future the Company intends to comment on this contract in the normal course of reporting.

EOS now has in excess of \$100 million in total cash available, including the \$35 million working capital facility established during the quarter. The Company intends to deploy this cash over the next 12 months, consistent with prior indications, predominantly towards expansion of its current defence and space businesses.

2. FINANCIAL GUIDANCE

The changes to the Company's financial guidance are shown below:

	Previous Guidance¹	Revised Guidance
Revenue	\$230m to \$240m	\$215m to \$220m
Underlying EBIT before SpaceLink costs (excl. FX gains / losses)	\$18m to \$21m	\$4m to \$8m
SpaceLink costs	\$17m	\$19m
Underlying EBIT after SpaceLink (excl. FX gains / losses)	\$1m to \$4m	-\$11m to -\$15m

Key Points:

- The company's underlying EBIT before SpaceLink costs is expected to be a profit of \$4 million to \$8 million, a reduction of \$14 million compared to prior guidance. The underlying EBIT after SpaceLink costs is expected to be a loss of between \$11 million and \$15 million, representing a decline of \$16 million compared to prior guidance.
- The \$16 million adjustment is comprised of \$11 million of profit deferred to 2022, \$3 million increased investment in business development, and \$2 million expansion of SpaceLink outlays.

Contributing Factors

The revised guidance for 2021 takes into consideration several factors applying across the business:

- The Defence Systems division has seen customer-requested schedule amendments that have resulted in the deferral of \$11 million of defence EBIT from Q4 2021 into

2022. These impacts are from the Company's two largest Defence contracts, one overseas and one domestic, in almost equal measure.

- A significant acceleration in Commonwealth defence activity has required \$3 million of increased spending in business development and tendering in space and other advanced technologies. This increased expense is strategically made but has placed downwards pressure on EBIT.
- The Company has also recently increased its planned investment in its SpaceLink subsidiary by over \$2 million based on the successful achievement of key milestones. The project funding requirements of the Company's SpaceLink business are discussed separately below.
- The EBIT of the Company's Space and Communications Systems divisions has improved due to increased orders. The improvement in profitability is due to the increase in volume from a modest base and this increase in business volume is expected to continue into 2022.

3. SPACELINK FUNDING REQUIREMENTS

EOS has continued to invest in SpaceLink, the communications superhighway for the space economy. The award by SpaceLink of a US\$300+ million contract to OHB Systems, effective from 21 September 2021, confirms estimates of the program budget, technical specifications and the 30 month build schedule ahead of the regulatory "Bring-Into-Use" deadline of mid-2024. It is now known that the funding requirement for SpaceLink will be circa US\$700 million through to positive cash flow, less than initially budgeted.

EOS intends to apply at least US\$300 million of debt, with around US\$400 million of equity capital split over multiple tranches to meet the US\$700 million requirement. EOS anticipates that tranche 1 of the funding requirement will be met through a SpaceLink pre-IPO convertible note which is currently under discussion with investors. Per the announcement on 13 October 2021³, OHB intends to invest US\$25 million into SpaceLink as the cornerstone investor in the round.

Shareholders will be updated on the finalisation of the funding round at the soonest possible time. The remaining equity capital is expected to be achieved through a listing of SpaceLink on a major exchange within the next 18 months or other available funding sources.

SpaceLink management, led by SpaceLink CEO David Bettinger, will be hosting an investor webinar on Friday 29 October 2021 at 11:00 AEDT. See separate announcement for a shareholder update presentation on SpaceLink and for webinar registration details.

³ See ASX announcement of 13 October 2021 ["EOS and SpaceLink select OHB as preferred tenderer for satellite manufacturing contract"](#)

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

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ABOUT ELECTRO OPTIC SYSTEMS (ASX: EOS)

EOS operates in two divisions: Defence Systems and Space Systems

- Defence Systems specialises in technology for weapon systems optimisation and integration, as well as ISR (Intelligence, Surveillance and Reconnaissance) and C4 systems for land warfare. Its key products are next-generation remote weapon systems, vehicle turrets, counter-UAS and C4 systems.
- Space Systems includes all EOS space and communications businesses, and operates as three entities – SpaceLink, EM Solutions and Space Technologies. SpaceLink is developing a constellation of Medium Earth Orbit satellites to create the communications superhighway for the space economy. EM Solutions provides global satellite communications services and systems. Space Technologies specialises in applying EOS-developed optical sensors to detect, track, classify and characterise objects in space and remains integral to research and development across the group.

This announcement may contain 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, financial position and performance, establishment costs and capital requirements are also forward-looking statements. 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 may contain 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.