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EOS 2023 Full Year Audited Results

Canberra, 28 February 2024

SUMMARY

Electro Optic Systems Holdings Limited has filed its Preliminary Final Report on Appendix 4E including the audited Financial Report for the full financial year ended 31 December 2023.

1. RESULTS FOR FULL YEAR ENDED 31 DECEMBER 2023

For Electro Optic Systems Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group" or "EOS"), Revenue from Continuing Operations activities was $219.3m, representing a $81.4m or 59% increase on the prior year (31 December 2022: $137.9m).

For the year ended 31 December 2023, the Loss After Tax from Continuing Operations was $34.1m, compared to the 2022 loss from Continuing Operations of $53.6m (2022: operating Loss After Tax of $115.6m including the results from Spacelink's Discontinued Operations).

Underlying EBITDA from Continuing Operations (prior to foreign exchange gains) was a Profit of $5.7m, representing an increase of $48.6m on the Underlying EBITDA Loss from Continuing Operations of $42.9m in the prior year.

The Group reported Net cash inflows from Operations for the year totalling $113.1m (31 December 2022: $51.6m Net cash outflows from Operations, which included $15.3m outflows relating to Discontinued Operations in 2022). In addition, the Group reported $34.7m of Net cash outflows from Investing Activities (31 December 2022: $28.3m). The Net cash outflow from Financing Activities for the year was $29.1m, due primarily to the repayment of debt (31 December 2022: Net cash inflows $45.4m).

At 31 December 2023, the Group held cash totalling $71.0m (31 December 2022: $21.7m). In addition, the Group had deposited $67.1m of Restricted Cash Security Deposits at 31 December 2023 (31 December 2022: $35.6m).

Key elements of financial performance are summarised below.

Revenue from Continuing Operations

For the year ended 31 December 2023 the Group recorded revenue from Continuing Operations of $219.3m (31 December 2022: $137.9m), representing an increase of $81.4m or 59%.

The increase in revenue was driven partly by higher Defence Systems segment revenue, up from $105.9m in 2022 to $155.4m in 2023, an increase of $49.5m. More detailed information is provided in Section 4 below.

Revenue in the Space segment also increased on prior year to $63.9m (2022: $32.0m), driven by the growth in the EM Solutions business. More detailed information is provided below.

The underlying cause of this 2023 revenue increase was higher activity levels, including on the delivery of a Defence Systems contract to a customer in the Middle East, delivery of a contract to a Western

European Government and the commencement of a new EM Solutions contract with the Commonwealth of Australia.

At 31 December 2023, the Group had a backlog of contracted future work of over $600m, including $181m of conditional contracts. The unconditional contracts represent work under customer contracts, mainly in Defence Systems and EM Solutions and work is currently expected to be undertaken principally in 2024 and 2025. The conditional contracts are detailed in section 4 below.

The Group Gross Margin on Materials (including expenses of Cost of Goods Sold and Movements in Inventory) was 44% in 2023 (2022: 34%). This increase was driven by higher margin sales being achieved in 2023 in the Defence Systems business.

Underlying EBITDA from Continuing Operations

Underlying EBITDA from Continuing Operations (prior to foreign exchange gains) was a profit of $5.7m, compared to an EBITDA loss from Continuing Operations of $42.9m (prior to foreign exchange gains and impairment charges) in the prior year.

Continuing Operations Year ended 31 December $m	2023	2022
(Loss) for the year	**(34.1)**	**(53.6)**
Income tax (benefit)	(6.1)	(9.3)
(Loss) before tax	**(40.2)**	**(62.9)**
Finance costs	35.6	14.3
Impairment of assets	-	7.3
Foreign exchange (gain)	(0.9)	(12.7)
Underlying EBIT (loss) (before impairment and foreign exchange gains)	**(5.5)**	**(54.0)**
Depreciation & amortization & other	12.4	11.1
Other one-off (gain) adjustments	(1.2)	-
Underlying EBITDA profit/(loss) (before impairment and foreign exchange	**5.7**	**(42.9)**

Discontinued Operations in prior year

During the prior year, the Group ceased investment in SpaceLink and subsequently SpaceLink ceased normal operations and entered an orderly wind-up process in the United States, by way of an Assignment for the Benefit of Creditors ("ABC").

Contract Asset

At 31 December 2023, the Group had a contract asset totalling $68.0m (31 December 2022: $164.4m), being revenue earned but not invoiced, mainly on a project with a significant overseas customer in the Middle East. The contract asset decreased by $96.4m during the year, due to invoices issued to customers during the year exceeding revenue recognised on customer contracts.

The realisation of cash was in part due to a contract amendment agreed with our customer in the Middle East in H1 2023.

Cash and Funding Balances

The cash balance increased from $21.7m at the start of the year to $71.0m at the end of the year.

The Group continues to closely monitor the cash flow of the Group and the outlook for the business, to ensure that adequate funding is in place and, if necessary, seek to amend the Group capital structure. The Group continues to focus on maximising cash inflows, including seeking contract amendments on existing contracts where appropriate, and securing and delivering on new sales contracts that are cash positive.

The Group repaid $26.9m to retire the Working Capital Facility which matured on 6 September 2023.

As at 31 December 2023, the Group had the following secured borrowing facilities outstanding:

- Additional Working Capital Facility, with $15.0m principal drawn, maturing on 11 April 2024, with a debt repayment obligation of $20.5m.
- Term Loan Facility, with $35.0m principal drawn, maturing on 11 October 2025, with a debt repayment obligation of $52.1m.

Following a fee claim that was received on 9 October 2023 and disputed by EOS, the Group resolved a commercial dispute with its primary lender, WHSP on 22 December 2023. The agreement was conditional on the approval of another finance provider, EFA, which was received subsequent to year-end, resulting in the facility amendment becoming unconditional and the $4.5m fee being paid to the lender.

2. COMPREHENSIVE PROGRAM OF CHANGE

The Group continued with the implementation of its change program during the year. The Board has further strengthened the globalisation of EOS as an Australian-headquartered international company.

This expansion requires a move to a more global operating structure with greater focus on sales in Europe, the United States of America, the Middle East and Asia – all of which are markets offering significant growth potential for EOS.

To realize this growth, a greater operational focus is required in Australia, including on engineering, supply chain and manufacturing as well as industrial and commercial competencies.

Management is developing opportunities to further improve these two focus areas.

Further work is continuing in a number of other areas, aimed at improving cash flow, profitability, funding and returns, including:

- diversifying the range of products, markets and customers, including initiatives to secure new customer contracts, including improving sales and marketing effectiveness;
- continued focus on realising cash from the Group's customer contracts. This includes seeking contract amendments with customers where possible, optimising the achievement of relevant milestones and seeking more favourable terms on new contracts;
- careful management of costs, in line with the revenue and activity levels of the business; and
- rationing and prioritising capital expenditure, including R&D spending, towards core Defence and Space businesses, using commercial investment criteria, and seeking third party product development funding where appropriate.

3. DETAILED SEGMENT UPDATE

a) EOS DEFENCE SYSTEMS

Defence Systems had a positive year ended 31 December 2023, with revenue increasing from $105.9m in the prior year to $155.4m in the year to 31 December 2023. This $49.5m increase was predominantly due to the impact of the continued focus on the contract for a large customer in the Middle East and a new contract with a Western European Government.

The main activity during the year was the manufacture and delivery of Remote Weapon Systems ("RWS") for several different customers.

Market Overview and Sales Activity – Defence Systems

The global market for EOS products continued to develop positively during 2023. This was partly due to the conflict in Ukraine, conflicts in the Middle East and rising tensions in other locations. This positively impacted on customer demand in NATO countries and other markets, resulting in increased overall customer enquiry levels and continuing discussions.

Typically, EOS operates in an industry where it can take an extended period of time (including up to, and beyond, twelve months) for new market opportunities to be converted into signed sales contracts. EOS continues to pursue a number of material opportunities in different markets, including Europe, the Middle East, North America and other international markets.

The global market outlook strengthened as the 2023 year progressed, as many nations announced planned increases in defence spending. This may lead to increased opportunities in future.

In Australia, the Commonwealth of Australia published the outcome of its Defence Strategic Review in April 2023. This review clarified the Australian Defence Force's ("ADF") future plans on key projects. During the year, EOS took part in discussions with Hanwha in relation to the Land 400 Phase 3 Project in Australia. Under this project, Hanwha has been selected to deliver 129 vehicles to the ADF in 2027 and 2028. EOS expects that it may receive the opportunity to provide RWS to Hanwha as part of this project. In addition, EOS may also have the opportunity for a share of work in support of the manufacture of turrets for Hanwha. EOS expects discussions to continue during 2024.

Work continued during the year on sales opportunities, including significant projects in Australia and internationally.

In the year to 31 December 2023, the Group executed contracts with customers for the following new business:

- a conditional contract to supply RWS to Ukraine, valued at approximately $120m;
- a further conditional contract to supply RWS to Ukraine, valued at approximately $61m;
- a contract with a Western European government to supply RWS, valued at $52m;
- a contract to supply R600 RWS unit spares to a customer in Southeast Asia, valued at approximately $28m; and
- a further contract with a Western European government to supply additional RWS, valued at approximately $25m.

In addition, in January 2024, a contract was signed to supply EUR 9m (approximately A$15m) of Slinger Counter-Drone Systems to Diehl Defence in Germany.

Following demonstration testing in August 2023, EOS products have been approved by the Ukrainian authorities for purchase as required. EOS is now working with the Ukrainian end-users and customers to allow committed orders to be placed under the conditional contracts. Further demonstration testing is planned to occur in Ukraine during 2024. These contracts are also subject to early termination rights in favour of the customer. There is no certainty or guarantee that committed orders will be received by EOS under these conditional contracts.

In July 2023, the Group delivered RWS to a Western European Government customer, under a contract valued at EUR 32m (A$52m). An amendment to this contract was executed in late December 2023 to supply this customer with further RWS, valued at approximately A$25m. The delivery of these additional units is expected in early 2024.

The Group continues to be in active discussions and contract negotiations for the provision of RWS and related components with other potential customers. There is no certainty that any particular outcome or transaction will result from these discussions and negotiations.

Product Development – Defence Systems

Product development work continues on a range of opportunities. Where development costs are significant, the Group is focused on obtaining third party funding, to speed delivery to the market and manage costs and returns on capital.

Defence Systems continued work during the year to widen its RWS product range from its longstanding successful R400 RWS product, and to develop its intellectual property and commercialise its product range:

- **Slinger Counter Drone System.** Defence Systems launched its new "Slinger" counter-drone (or "CUAS", Counter Unmanned Aerial System) product during May 2023, and conducted demonstrations. This new product draws upon the Groups deep expertise in accurate pointing technology and applies it to the growing threat of drones. During 2023, initial orders for nine systems were received from a customer in the United States. These are expected to be sent to Ukraine as part of a USA security assistance package. In addition, after the end of the year, a further $15m of Slinger systems were ordered by a customer in Germany in January 2024.
- **R150 RWS**. Defence Systems worked to secure an initial order for the new lightweight R150 RWS product. This new product has been completed and is now entering the marketplace. An order of 14 R150 gimbals was received in January 2023, as part of the L3 Harris Vampire portable rocket program, under which the US is providing support to Ukraine. The order is for less than $10m and was largely complete as at the end of 2023.
- **Uncrewed R400 RWS**. Defence Systems also supported the integration and subsequent deployment of four R400 RWS equipped uncrewed ground vehicles (UGV) for a NATO customer. This deployment represents the first NATO operational deployment for a UGV equipped with lethality systems.
- **R600 RWS.** Following supply in previous years, a follow-on order was secured in Q4 2022 for 14 new heavy calibre R600 RWS, plus spares, for a customer in Southeast Asia. The R600 RWS order is being manufactured in the Groups US facilities in Huntsville, Alabama. The total order is for up to $15m and is expected to be delivered in 2023 and 2024. In November 2023, a further follow-on contract was secured to supply approximately $28m of R600 RWS unit spares to the same customer.
- **R800 RWS.** This new product was unveiled at the AUSA Trade Show in the United States during the year. This product is a heavy-duty Remote Weapon Station that delivers the lethality of a full-sized medium calibre turret at a significantly lower weight and cost than a turret.

- **1kW Laser Dazzler.** This product was developed to blind the optical cameras in all classes of unmanned aerial systems (drones) and anti-tank guided missiles. This is a new technology for countering air and seaborne threats and is a silent, non-ballistic countermeasure which can be integrated with the R800 RWS. The Laser Dazzler provides operators a flexible range of kinetic and non-kinetic response options against uncrewed aerial and surface vessel threats.

Discussions with a number of potential future customers are continuing in relation to these new products. Typically, new product launches in the defence industry can take one to three years or more to achieve sales and develop commercial maturity.

Prototype High Energy Laser Weapons

During the year, the group demonstrated a prototype 34-kilowatt High Energy laser Weapon system engaging drones. Discussions are underway with potential customers with a view to agreeing customer-funded product development programs for this product. This could lead to development agreements being signed in 2024 or 2025, and commercial sales occurring in the period thereafter. It is expected to take some time for Directed Energy products to achieve significant commercial scale. There is no certainty that this will occur.

Supply Chain, Operations and Facilities – Defence Systems

Delivery against customer contracts in 2023 continued to face supply chain risks. The normalisation of global supply chains has improved in some areas, however this area continues to be a risk that is closely monitored and managed by the Group.

b) EOS SPACE SYSTEMS

For the year to 31 December 2023, revenue in the EOS Space Systems segment increased to $63.9m from the prior year (2022: $32.0m). EOS Space Systems comprises two business units, Space Technologies and EM Solutions.

Space Technologies

Space Technologies delivers space domain services (providing information on objects in space) and advanced manufacturing, (which includes the design, building and deployment of telescope and observatory equipment). Space Technologies also develops technologies that support Optical Communications (using lasers) and Space Control activities.

During 2023, Space Technologies continued to grow and commercialise its technology. This included delivering satellite laser ranging services to longstanding customers, and the successful completion of a beam director assembly for a foreign customer. Space Technologies continued to secure small contracts with international customers for Space Domain Awareness services and have successfully delivered on contract requirements. Our Kiwistar Optics business based in New Zealand continues to win contracts and deliver to customers.

During the year, discussions were held with various potential partners to develop opportunities for Space Technologies in the market for Space Control and Space Warfare solutions. This is an emerging market opportunity in both the United States and several other markets. Discussions to date have focussed on the Group's unique capabilities and potential opportunities for the Group to secure product development funding. These discussions are expected to continue in 2024.

Space Technologies continues to develop sales opportunities on a range of potentially significant future projects for Australian and overseas customers. These will help underpin future strategic growth initiatives, including in Space Control and Space Warfare solutions. Typically, it can take a year or more for opportunities to be developed and converted to signed sales agreements.

EM Solutions

EM Solutions designs, builds, deploys and maintains on-the-move satellite communication equipment systems for defence forces. EM Solutions' main products include satellite communication terminals and antennae for naval vessels and other marine applications.

During 2023, EM Solutions continued to focus on delivering growth through the delivery of satellite communication systems to naval customers in Australia and Europe and working closely with customers to deliver leading products and continue to deliver profitable growth.

In the year to 31 December 2023, the EM Solutions business:

- executed a significant new contract for up to $202m to modernise communications across the Royal Australian Navy over the next seven years;
- continued work on its $26m three-year sustainment contract for the Royal Australian Navy's existing fleet of Cobra Maritime SATCOM terminals;
- was part of the team selected as preferred tenderer to deliver the Australian Defence Forces ("ADF") new military satellite communications capability;
- continued to deliver its Cobra Maritime SATCOM terminals to customers in Europe; and
- secured new customer orders valued at $34.5m for Satellite Communication Terminals and Radio Frequency components.

EM Solutions continues to work closely with the ADF to support the Royal Australian Navy and other customers.

4. BUSINESS OUTLOOK

As outlined above, work continues throughout the Group on several initiatives, to diversify its products, markets and customers, manage costs, develop cash flow, and improve profitability, funding and returns.

Market and Customer Outlook

The market outlook for the Group's products continued to develop positively. This was partly due to the conflict in Ukraine, conflicts in the Middle East and rising tensions in other locations. This positively impacted on customer demand in NATO countries and other markets. As a result, overall customer enquiry levels and discussions continued to advance.

Typically, EOS operates in an industry where it can take an extended period of time (up to a year or more) for new market opportunities to be converted into signed sales contracts. EOS continues to pursue a number of material opportunities in different markets, including Europe, the Middle East and other international markets.

Outlook for Revenue and Cash Receipts

The Group's activities include the sale of products under a small number of relatively large projects. Typically, both the recognition of Revenue and Cash Receipts from customers are governed by the achievement of project milestones and legal arrangements specified in customer contracts.

Changes in project timing, and the timing of the Group's revenue and cash receipts, can arise due to unplanned changes in circumstances. This can include delays at the customer, delays at the customer's other suppliers, delays at the Group and delays at the Group's suppliers.

The level of future revenue and future cash receipts from customers will depend on the achievement of product manufacturing and delivery milestones, compliance with detailed contractual requirements, ongoing customer relationships and the outcome of commercial discussions and negotiations. Historically, owing to a high level of customer concentration and specific contractual arrangements, both revenue and cash receipts have been difficult to predict with certainty.

The Group intends to continue providing regular updates during the year in line with its continuous disclosure obligations.

This announcement has been authorised for release to the ASX by the Board of Directors.

Dr Andreas Schwer
Managing Director/CEO
28 February 2024