



Update to FY 2020 Profit Guidance

Canberra, 21 December 2020

Electro Optic Systems Holdings Limited (“EOS” or “Company”) (ASX: EOS) has experienced short term impacts to the EBIT result for FY 2020 ending 31 December 2020, which require the Company to withdraw the previous EBIT guidance of \$20-30m.

Cash flow for both FY 2020 and FY 2021 is unaffected by these events.

EBIT FOR FY 2020

The Company’s delivery processes were disrupted by COVID-19 in late March 2020. By October 2020 the Company recovered those processes and product delivery resumed at a continually accelerating rate suggestive of a 2020 EBIT in the range \$20-30 million. Under the recovery plan shipments increase each month.

On 18 December 2020 EOS was advised that around 12 days of December shipments would not be received by the foreign customer before 31 December 2020, as required for EOS to recognise the revenue for those items.

- The specific causes of the disruption are international air freight bottlenecks and a fall in import license activity in the offices of the customer (foreign) governments.
- In a normal year this event would be unremarkable, but in this year the December shipments exceed any other month as delivery momentum increases. The heavy skew of revenue and profits to Q4, and specifically December, has made the outcome for the full year unusually dependent on activity in the final weeks of the year.
- The affected revenue, for which all costs have already been incurred in 2020, may exceed \$20 million. This will now be shifted into Q1 2021 along with associated profit.

There is another, less significant FX impact on 2020 underlying EBIT from the rising value of the Australian dollar against the US dollar:

- The A\$ has strengthened to 76 cents per US\$, compared to 72 cents at the time of the last guidance update. Manufacturing costs are largely A\$ denominated versus revenue which is largely in US dollars. This exposure of the underlying EBIT could not be hedged due to uncertainty about the timing of income due to COVID-19 delays.
- In addition to the FX impact on underlying EBIT there is a FX impact on Statutory EBIT from the revaluation of the Contract Asset. This is a non-cash balance sheet adjustment and as such is excluded from underlying EBIT in accordance with normal accounting procedure.

CASH FLOW FOR 2020 AND 2021

These delays to around 2 weeks of deliveries and the associated deferral of revenue recognition into FY 2021 do not affect any prior cash flow assumptions by the Company.

The Company has previously announced that the process of conversion of around \$120 million of contract assets and inventory to cash receipts has commenced and would complete in Q2 2021 approximately 12 months after the raising of capital specifically for that inventory build.

There has been no material change to this process.

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

Further information:

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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 remote weapon systems, vehicle turrets and counter-UAS 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, space control and space protection.
- EOS Communications Systems provides global satellite communications services and systems. It specialises in innovative optical, microwave and on-the-move radio and satellite solutions that deliver high speed, resilient and assured satellite communications anywhere in the world.

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