



**Electro Optic Systems Holdings Limited**

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30 April 2020

## **ACTIVITY STATEMENT FOR THE QUARTER ENDING 31 MARCH 2020**

The company's operations in the quarter ending 31 March 2020 closely followed management's expectations at the commencement of the period, in terms of production output, factory yield, revenue generation, cash flow and profitability. However, events in the last 7 days of this quarter, caused by the COVID-19 pandemic, caused significant changes to the Company's plans for the rest of 2020 and for 2021.

By Q4 2019 the Company was holding firm orders for over \$180 million of defence products deliverable to a foreign buyer in the last 3 quarters of 2020. Combined with another \$70 million of firm orders more evenly distributed across 2020, the overall delivery requirement of \$250 million was sufficient to support 70% growth in revenue and EBIT for 2020 over 2019.

Management assessed that 70% growth could be managed if the entire 2020 effort was evenly distributed across all four quarters of 2020 to smooth plant demand and reduce production risk. In November 2019 the Company raised around \$80 million in new funds, with most allocated to allow production in Q1 2020 of products for inventory, which would be delivered and invoiced from Q2 2020.

Product delivery takes place through a series of steps called the delivery chain. The products must be delivered to the EOS facility in the foreign location, unpacked and checked, installed on customer-provided military vehicles, tested under real combat conditions with live ammunition at a special test range, and then delivered to a designated military base for deployment. These 5 steps typically require 4-6 weeks and involve around 35 staff.

On 24 March 2020, one week before formal deliveries could commence, the delivery chain was broken in multiple places due to a national lockdown and the impact of COVID-19:

- Five EOS technical staff from Australia were required to leave the foreign country on 24 hours of notice, or be stranded due to airport closures and quarantine. These staff are essential for the delivery process.
- All accessible airports were closed to normal commercial passengers and freight.
- The EOS production facility, located in a secure industrial zone, was locked down by military police, along with all other defence plants. Approximately 50% of EOS local staff of 35 persons were also formally quarantined.
- The military test facility required for live firing was closed.
- The designated delivery points within military bases were cut off by military base closures.

At 31 March 2020 these events were very recent, and were represented as precautionary by authorities. At this point, including some activity late in 2019, the Company had already completed around \$55 million of production for inventory, as planned.

The company's Space Systems and Space Communications businesses operated to expectations in this period.

**Subsequent Events:**

By 10 April 2020 the severity of the pandemic impact across the world and the affected country was more apparent. The Company assessed that the recovery of the entire delivery chain would take 60 days after reasonable access and mobility was restored. Since access was forecast to be opened from July, the earliest date for deliveries to commence would be September, pushing cash payments to Q4 2020.

There are no contractual issues arising from delivery delays due to the pandemic. There is no contractual obligation on EOS to continue production of products which cannot be delivered.

On 14 April 2020 EOS decided to suspend production of products undeliverable in the near term as soon as the production facility could efficiently switch its output to another customer[s]. This switch requires 100 days to allow the supply chain to respond with appropriate parts. The suspended production can resume as soon as the delivery chain is restored and inventory is reduced to normal levels. This is likely to occur in 2021.

On 15 April 2020 EOS raised \$134 million in new capital through a fully underwritten institutional placement with \$55 million allocated to allow a further expansion of inventory until July 2020 when production capacity can be switched to other contracts with no delivery impediments.

The deferral of a substantial amount of activity and its associated revenue from 2020 to 2021 required EOS to reduce 2020 guidance from 70% growth to 25% growth over 2019 performance.

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

Further information:

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")**

31 MARCH 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers (See note below)	27,081	27,081
1.2 Payments for		
(a) research and development	(1,670)	(1,670)
(b) product manufacturing and operating costs	(24,414)	(24,414)
(c) advertising and marketing	(394)	(394)
(d) leased assets	-	-
(e) staff costs	(10,831)	(10,831)
(f) administration and corporate costs	(7,333)	(7,333)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	160	160
1.5 Interest and other costs of finance paid	(227)	(227)
1.6 Income taxes paid	(1,649)	(1,649)
1.7 Government grants and tax incentives	319	319
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(18,958)</b>	<b>(18,958)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(3,970)	(3,970)
(d) investments	-	-
(e) intellectual property	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
	(f) other non-current assets	-	-
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	(7,124)	(7,124)
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(11,094)</b>	<b>(11,094)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	(549)	(549)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(549)</b>	<b>(549)</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	77,881	77,881
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(18,958)	(18,958)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(11,094)	(11,094)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(549)	(549)
4.5	Effect of movement in exchange rates on cash held	2,744	2,744
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>50,024</b>	<b>50,024</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	7,175	3,490
5.2	Call deposits	42,849	74,289
5.3	Bank overdrafts	-	-
5.4	Other – restricted cash	-	102
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>50,024</b>	<b>77,881</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>16,145</b>	<b>9,021</b>

**6. Payments to related parties of the entity and their associates**

6.1	Aggregate amount of payments to related parties and their associates included in item 1	323
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

<b>Current quarter \$A'000</b>
323
-

The amount included in Item 6.1 includes \$202,337 in salary and other benefits to the CEO. Consulting fees to non-executive directors of \$54,000 and \$66,425 paid in directors fees and superannuation to directors and entities associated with the 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 Q2 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.

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

**7. Financing facilities**

*Note: the term "facility" includes all forms of financing arrangements available to the entity.*

*Add notes as necessary for an understanding of the sources of finance available to the entity.*

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)		-
7.4 <b>Total financing facilities</b>	-	-

7.5 **Unused financing facilities available at quarter end** -

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)	(18,958)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	50,024
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	50,024
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	2.6

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- 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

- 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

- 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

## 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: 30 April 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.