



# 1H 2020 Interim Results

## Investor Presentation

31<sup>st</sup> August 2020

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- **Financial years:** FY refers to the full year to 31 December, 1H refers to the six months to 30 June, and 2H refers to the six months to 31 December.
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# Overview

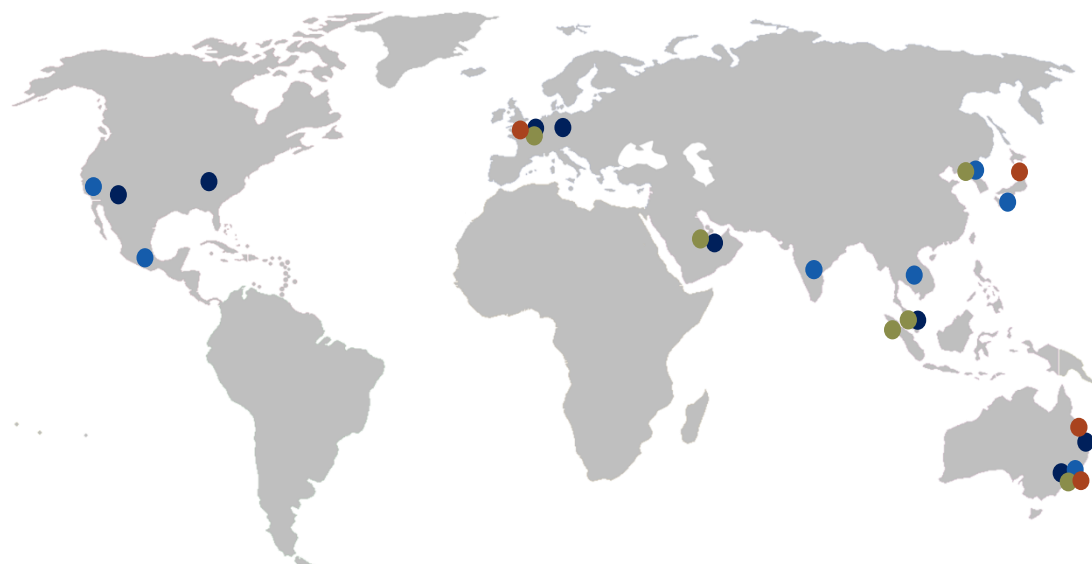
EOS is Australia's largest aerospace entity and the largest defence exporter in the southern hemisphere



Reaching across **12** countries



**450+** Employees around the world



● EOS Facility

● Defence Customers

● Space Customers

● Communications Customers



**\$800m**

R&D spent on EOS IP over 20 years, 75% from customers, most of this IP has not been exploited yet



**\$165m**

Annual revenue (FY19) <sup>(1)</sup>



**\$3.1bn**

Sales pipeline <sup>(2)</sup>

**\$570m**

Order backlog <sup>(3)</sup>

(1) FY2019 figures. (2) The backlog figure represents the expected revenue EOS will receive from contracts which have been awarded to EOS but for which EOS has not delivered the products, as at 30 June 2020.

(3) The pipeline figure represents the potential revenue from specific customer requirements for which EOS has tendered for, or is registered and qualified to tender for over the following 36 months, as at 30 June 2020

# Key Milestones

**1983**  
Electro Optic  
Systems Pty  
Limited  
Founded

**1993**  
**Defence**  
EOS selected by US  
ARDEC as developer  
for remote weapons



**1998**  
**Space**  
Research Satellite  
EOSCOM  
launched



**2002**  
**ASX: EOS**  
**Public**  
**Listing**

**2006**  
**Defence**  
ADF RWS  
Contract Award



**2018**  
**Defence**  
LAND400  
Phase 2  
RWS Selected



**2020**  
**Communications**  
Acquisitions  
Audacy,  
Collinear

**1986**  
**Space**  
First Satellite Laser  
Ranging Contract  
  
Federal Republic of  
Germany

**1996**  
**Space**  
World First  
Eyesafe Laser  
Transmits Into Space



**2000**  
**Defence**  
US CROWS 1  
RWS Contract Award



**2017**  
**Space**  
EOS Space Research  
Centre, Western Australia  
Opened



**2019**  
**Communications**  
Acquisition  
EM Solutions



**Defence**  
LAND400 Phase 3  
Down Selection

# Leadership Team

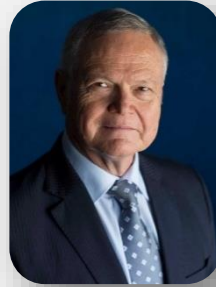
## Board of Directors



Fred Bart  
Chairman



Peter Leahy  
Non-Executive  
Director



Ben Greene  
Group Chief  
Executive Officer



Kate Lundy  
Non-Executive  
Director



Geoff Brown  
Non-Executive  
Director



Ian Dennis  
NED & Company  
Secretary

## Executive Management Team



Pete Short  
Chief Operating  
Officer



Scott Lamond  
Chief Financial  
Officer



Grant Sanderson  
CEO, Defence  
Systems



Prof. Craig Smith  
CEO, Space Systems



Glen Tindall  
CEO, Communications  
Systems



Neil Carter  
Chief Strategy  
Officer

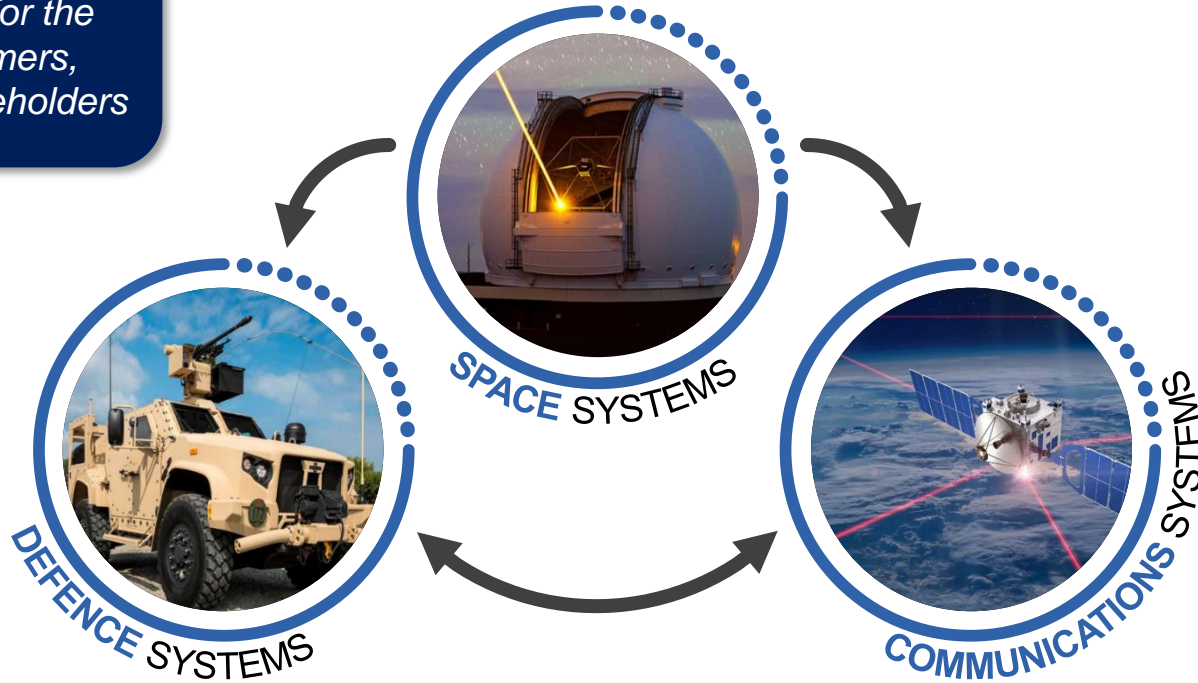


# Strategic Ecosystem & Synergies

## **Strategy:**

*to use advanced technology to create new markets for the benefit of our customers, communities and shareholders*

- Creating world leading R&D**
- Laser physics
  - Advanced optics
  - Precision control systems
  - Space domain sensors
  - Communications technologies



- Strategically releasing technology**
- When customers have sufficient structural demand
  - Demonstrated funding

**EOS divisions are designed as stand-alone profit centres, but when combined provide strong strategic leverage and significant up-selling opportunities**



# 1H20 Review



# 1H20 Key Operational Highlights

01

## Revenue growth of 31%

- ✓ Revenue of \$75m, up 31% on pcp despite COVID-19 interruptions to deliveries
- ✓ Net loss after tax of \$14m as revenue and profit deferred into H2 2020 and 2021
- ✓ H2 strong revenue growth and positive profit forecast. Guidance reaffirmed

02

## COVID-19 challenges managed effectively

- ✓ Staff well-being prioritised. Safety procedures allow for continued momentum
- ✓ Supply chain disruptions to delivery for major overseas customer. Deliveries, testing and cashflow to resume in Q4
- ✓ \$134 million institutional placement and \$10.8m SPP well supported by shareholders. Cash of \$128m at 30 June 20

03

## Industry tailwinds accelerating globally

- ✓ Geopolitical tensions, asymmetric threats, defence spending, and manufacturing stimuli in key EOS locations are increasing
- ✓ Australian 2020 Defence Strategic Update expands spending by \$70bn to \$270bn over 10 years. All EOS sectors are impacted
- ✓ Global demands for advanced technology, real value-for-money, increased automation, and responsive delivery all favour EOS

04

## Major growth initiatives

- ✓ New ADF 251 RWS contract. New product developments include Counter-UAS, directed energy, containerised weapons and remotely operated combat vehicles. Production capacity built to \$450m pa at Australian and US facilities, with planned path to \$900m pa
- ✓ Space Systems continues to drive R&D. \$250m of space sensor opportunities expected to drive shift into profitable backlog
- ✓ EM Solutions in line with acquisition targets. SpaceLink satellite communications generating strong interest from funders and customers

# 1H20 Financial Headlines

\$millions	1H20	1H19	% movement
Revenue	75.4	57.4	31%
EBITDA - excluding FX gains/(losses)	-11.0	10.6	-204%
<i>% of revenue</i>	-14.6%	18.5%	
Underlying EBIT (excl. FX gains/losses)	-15.1	9.1	-266%
<i>% of revenue</i>	-20.1%	15.9%	
EBIT	-18.2	9.7	-288%
Statutory Net Profit/(loss) After Tax	-14.3	7.5	-291%
Statutory diluted EPS (cents)	-12.42	8.23	-251%
Operating cash flow	-62.6	-1.3	
Investing cash flow	-24.6	-2.4	
Financing cash flow	137.0	-0.8	
Cash	128.1	36.2	

## Strong revenue growth despite deferrals caused by COVID-19

- Revenue deferred into H2 2020 and 2021

## Short term profitability impact from deferrals and supply chain issues

- Production running at sub-optimal levels due to lower volumes
- Split shifts for employee safety reduced efficiencies
- Issues with component suppliers' timeliness and quality now resolved

## EOS continued to invest in new and innovative R&D projects

- Includes CUAS, Directed Energy, Adaptive Optics and others

## Capital raising to support contract assets growth and investment in growth initiatives

# 1H20 Segment Performance

\$millions	1H20	1H19
<b>Revenue (excluding other income)</b>		
Defence	66.6	56.6
Communications	8.1	-
Space	0.7	0.8
<b>Total Revenue</b>	<b>75.4</b>	<b>57.4</b>
<b>EBIT</b>		
Defence	-11.7	10.6
Communications	-0.9	-
Space	-1.2	-1.2
Unallocated	-1.3	-0.3
<b>Underlying EBIT - excluding FX gains/(losses)</b>	<b>-15.1</b>	<b>9.1</b>
FX gains/(losses)	-3.1	0.5
<b>EBIT</b>	<b>-18.2</b>	<b>9.7</b>

## Defence revenue growth of 17% despite COVID-19 interruptions

- Revenue recognition based on the milestones completion approach

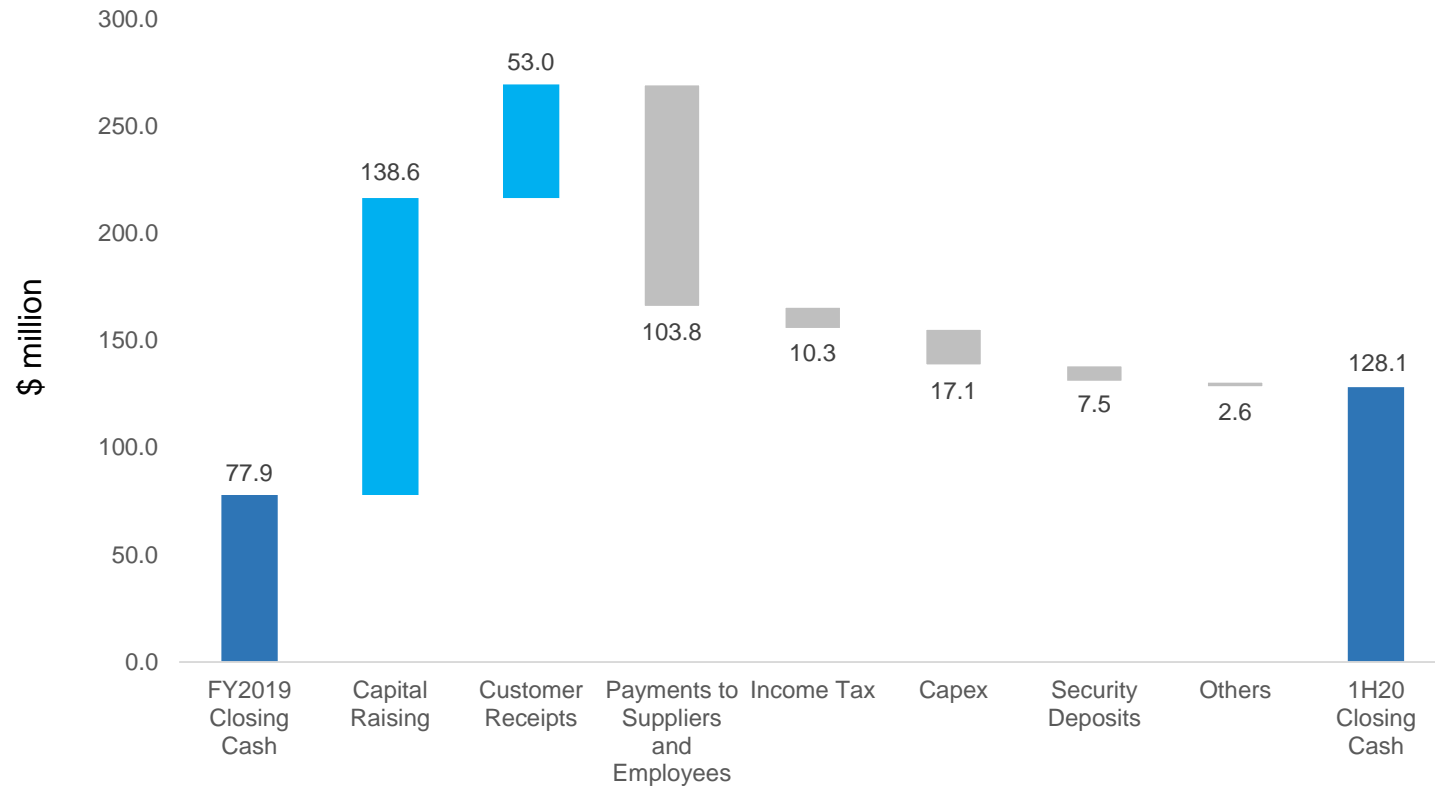
## Communications division newly formed from business and asset acquisitions

- EM Solutions tracking to acquisition business plan with revenue of \$8m and profit of \$1.5m
- Audacy and Collinear assets held on balance sheet as SpaceLink funding options evaluated

## Space Systems saw deferral of major projects due to COVID-19

- Continued investment in R&D on behalf of all three EOS divisions

# 1H20 Net Cash Flow Movements



## Cash flow impacted by COVID-19

- Disruption of the delivery chain deferred cash flow from H1 into H2 and 2021
- Contract assets increased by \$50.6m and inventory increased by \$22.7m. Will unwind over next 12 months

## Capital raising to support the business

- Institutional raising and SPP well supported by shareholders
- Cash balance available to support operations

## Capex includes investment in growth initiatives

- Includes Counter-UAS, Satellite Communications, and IT infrastructure

## Cash of \$128m will strengthen in FY21

- Strong cash flow from major contracts anticipated over the next 12 months, starting in Q4 2020

# FY2020 Guidance and Growth Priorities

## FY2020 Guidance (Reaffirmed)

- 1 EBIT of \$20-30m
- 2 Underlying EBIT margin of ~10% <sup>(1)</sup>

*“The major impact on EOS of COVID-19 in 1H20 has been to delay revenue, profit and conversion of pipeline to backlog. As this impact unwinds EOS is expected to grow strongly in 2021 and beyond, with growth expectations even higher than expected 9 months ago due to strong business tailwinds not previously expected.”*

Dr Ben Greene | CEO

## Growth Priorities



### Defence

Defence sector has strong growth beyond 2020 locked into its large contract backlog and conversion of pipeline opportunities to backlog contributes further upside. Production capacity growth towards \$900m by 2024 is in hand. EOS' capabilities and scale now increasingly resulting in Prime Contract opportunities



### Communications

EM Solutions will accelerate global access to its market-leading terminals. SpaceLink will enter the SatCom market offering increases in bandwidth, resilience and responsiveness, all at significantly reduced cost. Strong linkages with Defence and Space will enhance EOS' competitive position



### Space

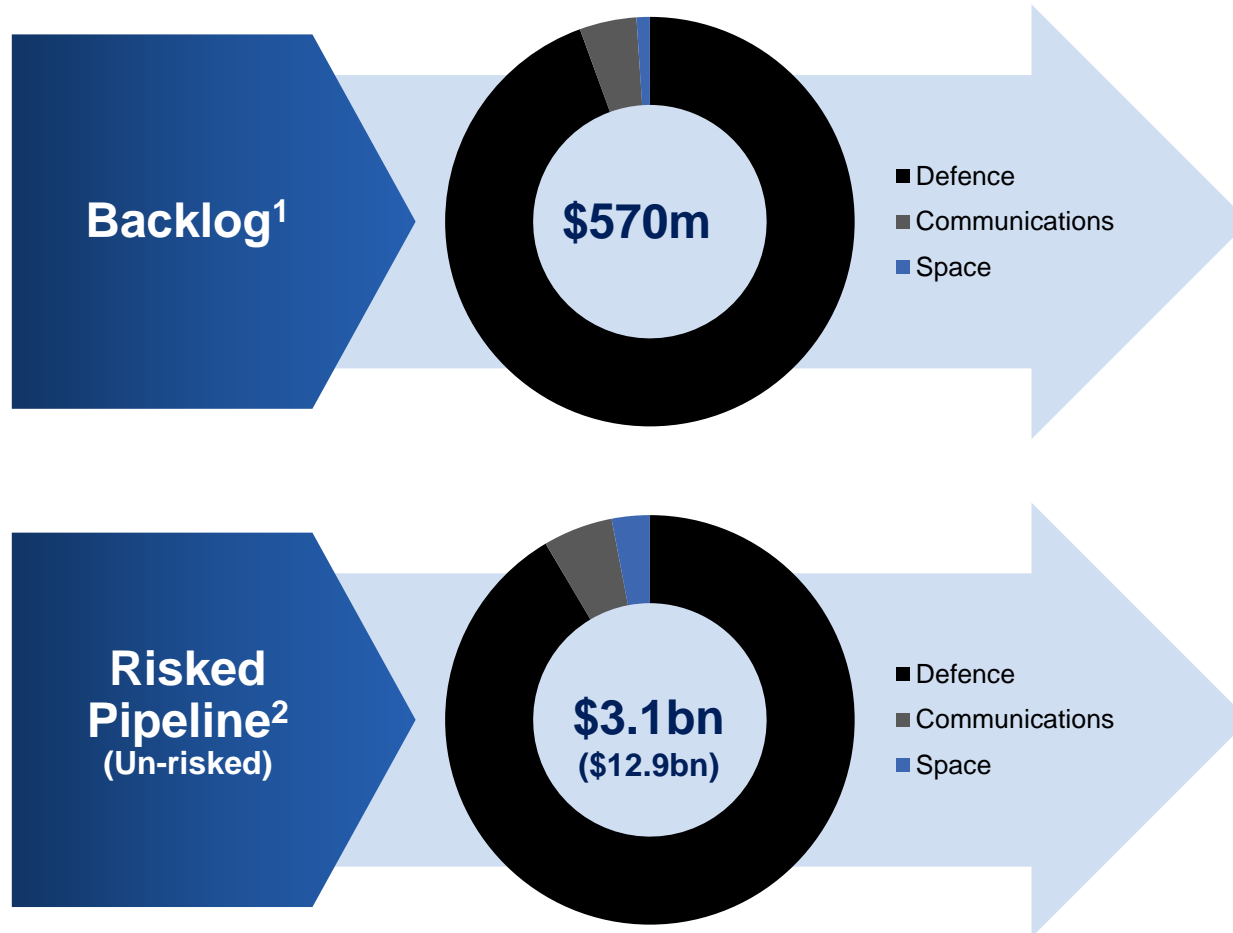
Monetisation of Space technology will continue in Communications and Defence sectors and increasingly through sales of space infrastructure, and data and services for space asset protection and missile defence. All are growth areas with established customers for EOS, and pipeline opportunities

(1) Underlying EBIT margin before FX at mid-point of EBIT guidance range



# Strategic Outlook

# Update on Pipeline and Backlog



## Backlog reflects committed contracts that are not yet fulfilled

- Backlog currently consists largely of Defence products underpinned by a number of key contracts
- Communications backlog is expected to grow strongly as EM Solutions sells into our NATO allies in Europe and North America
- Strong market response to recent limited release of Space products previously restricted for export, and backlog is expected to grow as those requirements are contracted

## 148 separate opportunities, with 18 >\$200m

- Four programs that are >\$1bn with awards due in 2021 and 2022
- Risk-weighted pipeline due for award in next 36 months. Many opportunities arise annually to increase pipeline significantly
- Pipeline does not include sustainment opportunities which normally flow three years after delivery

(1) The backlog figure represents the expected revenue EOS will receive from contracts which have been awarded to EOS but for which EOS has not delivered the products, as at 30 June 2020.

(2) The pipeline figure represents the potential revenue from specific customer requirements for which EOS has tendered for, or is registered and qualified to tender for over the following 36 months, as at 30 June 2020



# Commonwealth Defence Strategic Update

## 2020 Defence Strategic Update released 1 July 2020 <sup>(1)</sup>

- Increase in spending from \$200bn to \$270bn over next 10 years
- Three new strategic objectives <sup>(2)</sup>
  - to shape Australia's strategic environment;
  - to deter actions against Australia's interests; and
  - to respond with credible military force, when required

## New procurement guidelines to focus on Australian content

- Value for money to include "broader economic impact" in procuring Australian Industry Content (AIC). Need to "show support" for Australia's defence industrial base

### Programs with direct relevance to EOS <sup>(3)</sup>

Land Combat Vehicles (\$2bn)

Land Combat Support (\$1-2bn)

Future Vehicles (\$7-11bn)

Land C4 Comms (\$6bn)

Space Domain Awareness (JP9360 \$2bn)

Sovereign Satellite Communications (JP9102 \$7bn)



2 July 2020, Prime Minister The Hon Scott Morrison MP at EOS' high-tech Canberra facility announcing the acquisition of 251 remote weapon systems.

***"More durable supply chain and strengthened sovereign industrial capabilities to enhance the ADF's self-reliance. Increased weapons inventories, options for expanded domestic munitions manufacturing, additional fuel storage and increased domestic industry participation"***

<sup>(1)</sup> <https://www.defence.gov.au/strategicupdate-2020/> | <sup>(2)</sup> [https://www.defence.gov.au/StrategicUpdate-2020/docs/Factsheet\\_Force\\_Structure.pdf](https://www.defence.gov.au/StrategicUpdate-2020/docs/Factsheet_Force_Structure.pdf) |

<sup>(3)</sup> [https://www.defence.gov.au/StrategicUpdate-2020/docs/Factsheet\\_Industry\\_and\\_Innovation.pdf](https://www.defence.gov.au/StrategicUpdate-2020/docs/Factsheet_Industry_and_Innovation.pdf)

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# Counter Unmanned Aerial Systems

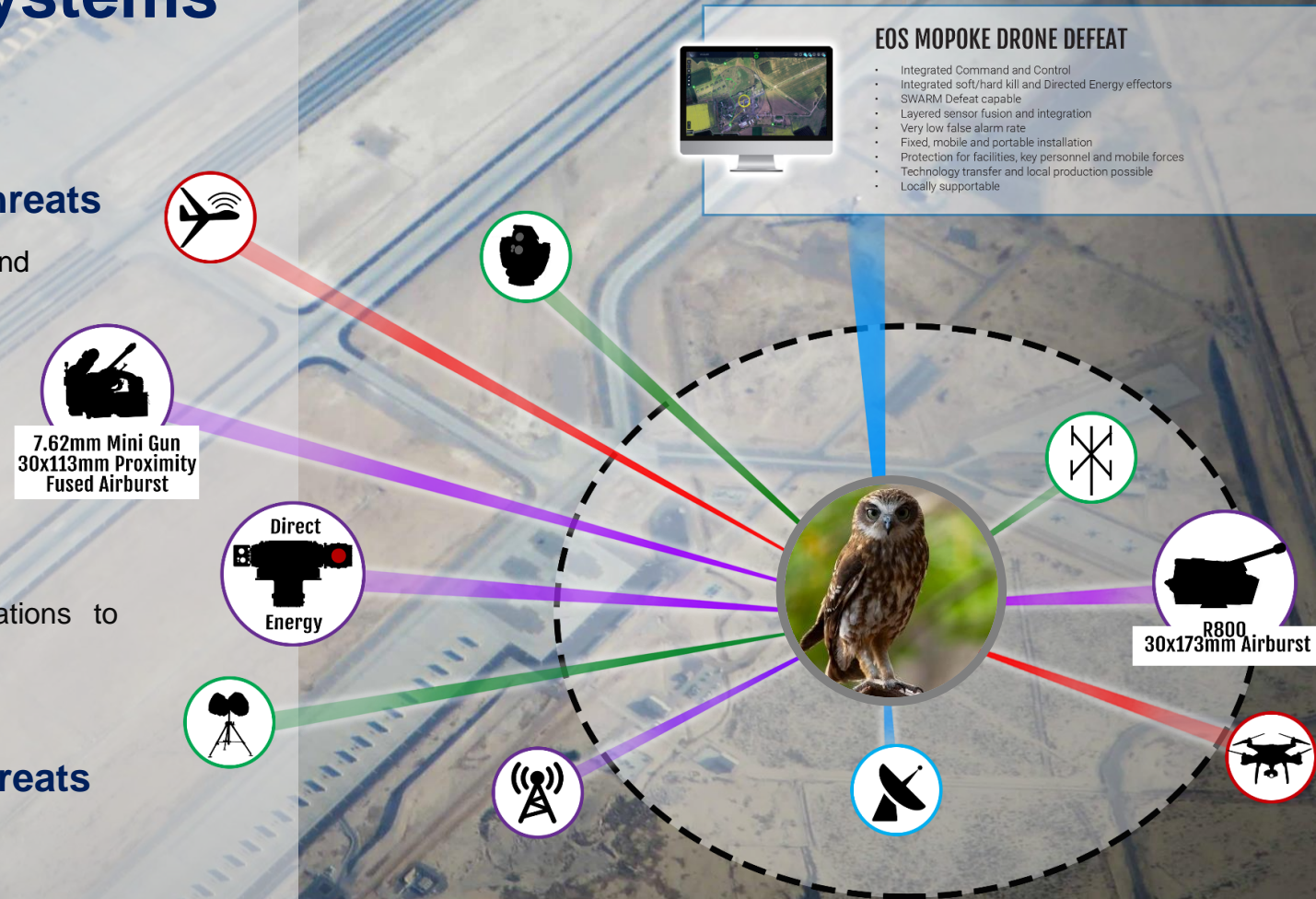
## Drones are one of a number of new technology threats

- Asymmetric threat due to low cost for attackers and difficulty to defend

## EOS already selected as preferred tenderer to major program

- EOS unique in having several different weapons systems which are proven killers for every category of UAS ("drones")
- Includes Directed-Energy capability
- Customer demonstration planned for October. Contract negotiations to commence post successful demonstration

## EOS has technology to combat other emerging threats such as hypersonic missiles



“The Australian Mopoke bird of prey can hunt day or night, using extremely sensitive sensors”



# Remotely Operated Combat Vehicles

**EOS products have the two essential performance requirements for ROCV**

- Accuracy: no reload is possible, enhanced lethality
- Reliability: no manual interval is available

**EOS is participating in multiple ROCV tender programs around the world**



# Space Systems: Securing Space

## Space Domain Awareness (SDA)

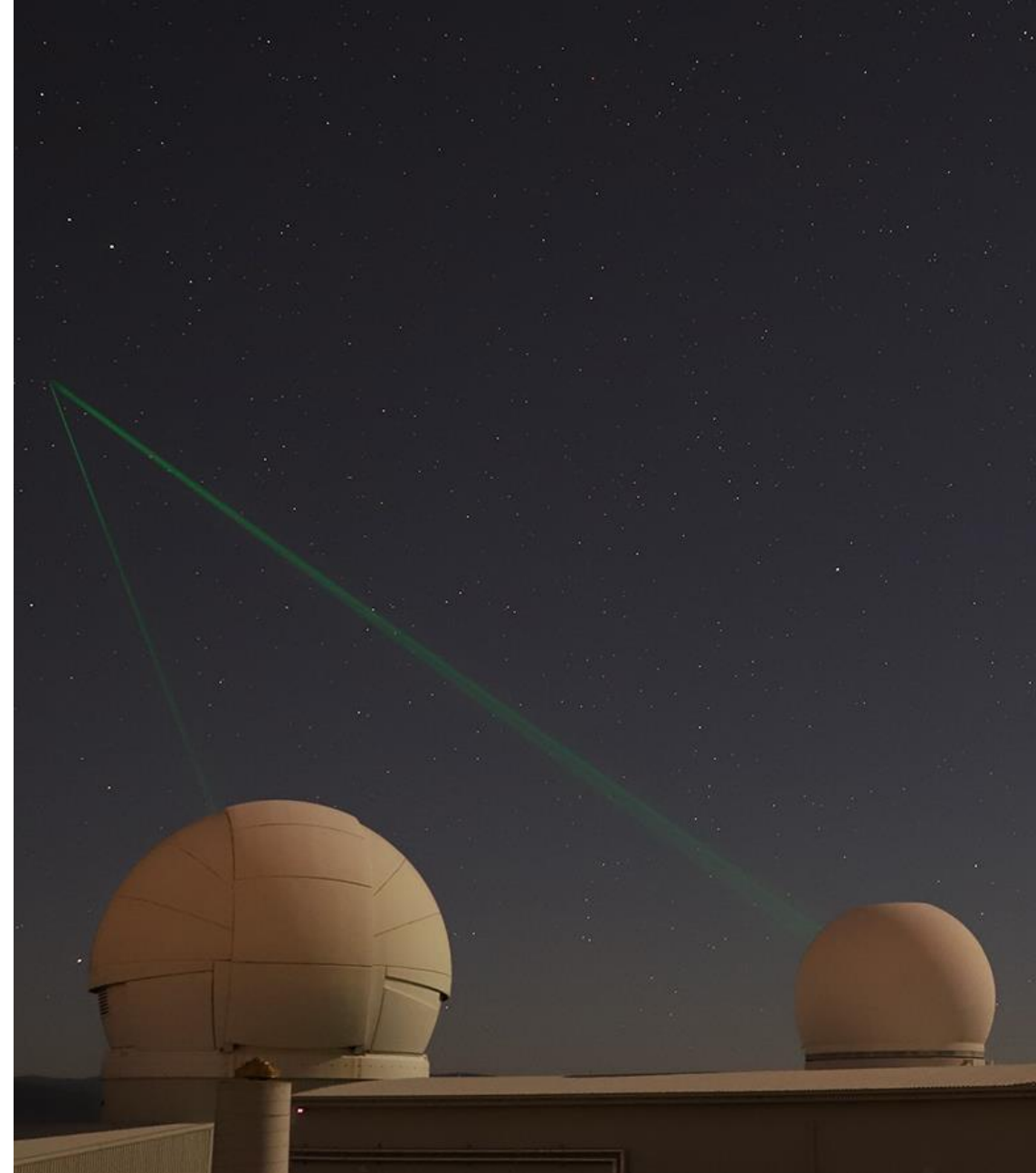
- EOS laser sensors detect, track, classify, characterise and catalogue objects in space, far beyond the range of radar
- EOS will seek to participate in Commonwealth program JP9360 which includes c.\$2bn for SDA

## Space Protection

- Collision avoidance combining data with EOS' Conjunction Analysis and Threat Warning system to provide realistic and actionable data for satellite operators
- EOS is currently completing a new type of laser tracker using radiation pressure to move space debris to new orbits to avoid collision
- Further technology for Space Protection under development

## Space Systems profitability expected in 2021

- Risk-pipeline of \$95m (\$425m un-risked)
- EOS short-listed for \$250m of space sensor procurements over the next 18 months



# Communications: SpaceLink

## SpaceLink designed to exploit EOS optical technology

- EM Solutions (ground segment), Audacy (spectrum licenses), Collinear (hybrid technology) + EOS optical technology
- Will deliver first 10X and later 100X increases in bandwidth

## Three satellites (+1 spare)

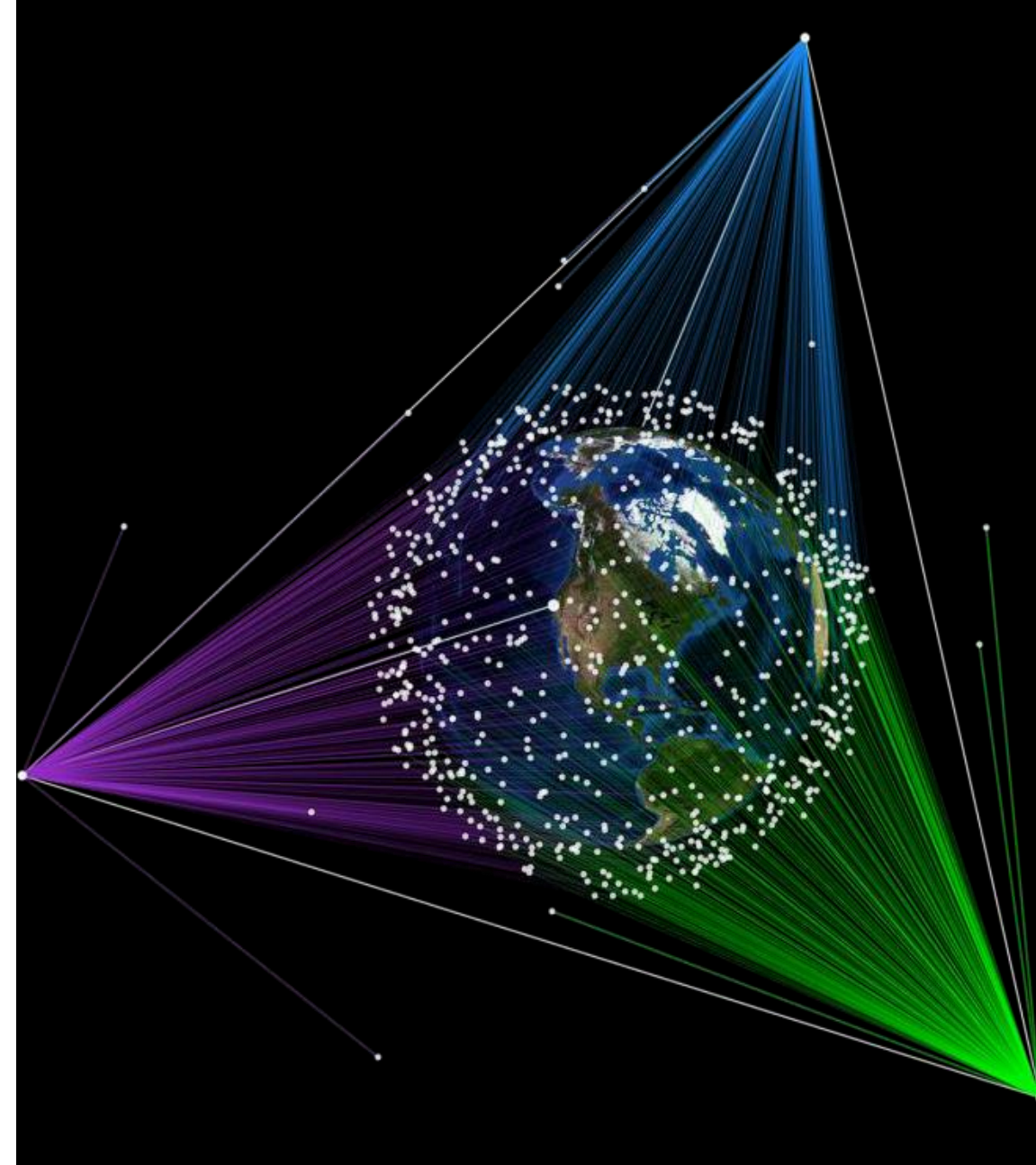
- Positioned in medium earth orbit (MEO) at 14,000km above earth
- First constellation (2024) using existing microwave technology
- Second constellation (2027) will be hybrid microwave-optical technology leveraging EOS optical technology with EMS/Audacy/Collinear IP and strong spectrum licenses

## Targeting high value customers who value

- Bandwidth
- Resilience
- Latency (rapid links from anywhere-to-anywhere)
- Topology

## \$1.2bn funding requirement

- Strong interest from suppliers and partners





# Battlefield of the Future

