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**EOS enters into New Financing Facilities &
continues development of Strategic Growth Options**

Canberra, 13 October 2022

Electro Optic Systems Holdings Limited (“EOS” or “Company”) announces that it has entered into new financing arrangements with Washington H. Soul Pattinson and Company Limited (“WHSP”), a major shareholder, and provides an update regarding potential strategic growth partnerships and/or capital transactions.

Summary

Refinancing

- EOS has agreed the following new debt facilities with WHSP
 - Three-year \$35m New Term Loan Facility (defined below)
 - 18-month \$15m Additional Working Capital Facility (defined below)
- The 12-month \$20m Existing Working Capital Facility, (defined below), announced on 7 September 2022 remains in place.
- As consideration for entry into the refinancing agreements, WHSP will be issued with 4.68% of EOS issued capital for nil cash consideration, taking WHSP’s total shareholding to 9.95% of EOS’ issued share capital.
- The Board approved these new debt facilities to create funding certainty, given the Company’s short term debt repayment obligations.
- This funding solution will enable EOS to continue executing the Program of Change that has commenced under the new CEO Dr Andreas Schwer, to ensure EOS is optimally positioned to develop its strategic growth potential.

Strategic Growth Partnerships and/or Capital Transactions

- Following the Strategic Review earlier in 2022, EOS has recently received approaches from several parties in relation to potential strategic growth partnerships and/or capital transactions. These potential strategic growth partnerships relate to the broader EOS Group, including the core Defence and Space businesses.
- A confidential process has been initiated to develop and assess potential proposals arising from these approaches.

BUSINESS UPDATE

The Company has continued to execute the actions arising from the recent Strategic Review. This includes executing the Program of Change outlined in the Investor Presentation dated 8 September 2022. This continues on schedule, including the Restructuring & Reorganisation work to reduce costs.

With SpaceLink, the work to seek strategic investors is continuing. In the event that funding from strategic investors is not secured before the end of 2022, EOS intends to cease further investment in SpaceLink.

The EOS new management team continue to complete a thorough re-assessment of the financial outlook for the Company, including an assessment of evolving risks and opportunities and any impacts on revenue. An update on the outlook for the Company is expected to be provided once this reassessment has been completed.

REFINANCING

Background

On 6 September 2022, the Company agreed a short-term \$35m term loan facility (“Existing Term Loan Facility”) with WHSP, that expired on 26 September 2022, as well as a \$20m 12-month working capital facility (“Existing Working Capital Facility”). As disclosed via announcements on 26 September 2022, 4 October 2022 and 7 October 2022, WHSP has provided further extensions of the Existing Term Loan Facility maturity date, with the latest extension expiring on 12 October 2022.

EOS has actively explored a number of financing paths for several weeks. Following extensive work, it was determined that the new financing arrangements entered into with WHSP is the best available alternative to provide the funding certainty needed to support EOS’ restructuring plans and future growth.

Financing Facilities Agreed with WHSP

EOS has agreed the following financing arrangements with WHSP (including the Existing Working Capital Facility as amended, the “WHSP Financing Facilities”):

- a new \$35m three-year term loan facility (“New Term Loan Facility”) to refinance the Existing Term Loan Facility; and
- an additional \$15m working capital facility (“Additional Working Capital Facility”).

The Existing \$20m Working Capital Facility with WHSP remains in place (subject to amendments to align it to the other WHSP Financing Facilities).

The key terms of each of the WHSP Financing Facilities are shown in the Appendix. The Total Principal available to be drawn under these facilities is \$70m. If fully drawn, the arrangements require EOS to repay \$127m.

At the date of this announcement, the Company has drawn a total principal of \$55m under these facilities, including \$35m under the New Term Loan Facility and \$20m under the Existing Working Capital Facility. A further \$15m is expected to be drawn under the Additional Working Capital Facility prior to 31 October 2022.

As consideration for entry into the New Term Loan Facility, the Company has agreed to issue 7,653,040 new fully paid ordinary shares in the Company (“Shares”) to WHSP for no cash consideration within the five business days after the date of the New Term Loan Facility. The fair value of the shares to be issued is estimated to be approximately \$3.9m, based on EOS volume weighted average price in the five trading days prior to this announcement.

The Shares to be issued to WHSP represent approximately 4.68% of EOS current issued capital and are being issued without EOS shareholder approval pursuant to the Company’s available placement under ASX Listing Rule 7.1. The Shares issued to WHSP will rank equally with existing Shares on issue with effect from their date of issue.

Following issuance of these Shares, WHSP’s percentage holding of the EOS Shares on issue will be approximately 9.95%. WHSP remains the largest shareholder in EOS.

In light of recent short term debt repayment obligations, the Board approved these new debt facilities so as to create funding certainty, and to allow EOS time to continue executing EOS’s Program of Change, under the new CEO Dr Andreas Schwer, and to fully develop a longer-term value accretive growth strategy.

STRATEGIC GROWTH PARTNERSHIPS AND/OR CAPITAL TRANSACTIONS

Following the Company's Strategic Review earlier in 2022, EOS has recently received approaches from several parties in relation to potential strategic growth partnerships and/or capital transactions. These potential strategic growth partnerships relate to the broader EOS Group, including the core Defence and Space businesses.

A confidential process has been initiated to develop and assess potential proposals arising therefrom. These proposals may include potential future capital transactions. Greenhill & Co Australia has been appointed as financial adviser in relation to the process.

There is no certainty that any particular outcome or transaction will result from the process. EOS will update the market as appropriate.

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

Further information:

Andreas Schwer
Chief Executive Officer

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Appendix: Summary of Key Financing Terms¹

The key terms of each of the WHSP Financing Facilities are shown in the table below:

Facility	New Term Loan Facility	Additional Working Capital Facility	Existing Working Capital Facility	Total
Date Facility Signed	12 Oct 2022	12 Oct 2022	7 Sep 2022	
Principal Amount	\$35m	\$15m	\$20m	\$70m
Upfront Fees²	\$4m	\$2m	\$3m	\$9m
Maturity	36 months Oct 2025	18 months Apr 2024	12 months Sep 2023	
Interest rate (pa)	22%	15%	15%	
Line fee (pa)	4%	4%	4%	
Cash pay or capitalised³	Cash pay or capitalised on election of Borrower			

The WHSP Financing Facilities include financial and other covenants. Further details on the terms of the Financing Facilities, including common terms and financial covenants, are included below.

The financing arrangements specify a “Minimum Earn” amount⁴, under which, in the event of early repayment, EOS is required to pay the full Interest and Line Fee that would otherwise be payable to maturity for the term of the relevant facility. The total repayment including “Minimum Earn” is \$127m⁴.

1 Amounts in this Appendix have been rounded

2 The Work fee of 7.5% and Establishment Fee of 5.0% are capitalised into the facility limit upfront

3 Capitalisation of interest and line fees is available to EOS, up to a limit

4 Across the three WSHP Finance Facilities, this 'Minimum Earn' amount would total \$48m (or \$41m in the event that EOS does not elect to capitalise any interest or line fees under the facilities). The total amount to be repaid (including principal, upfront fees, interest, line fees and minimum earn) across the three WSHP Finance Facilities is \$127m. (If EOS does not elect to capitalise any interest or line fees under the facilities, this would fall to \$120m).

Terms Common to All WHSP Financing Facilities

- Early repayment is permitted (the New Term Loan Facility cannot be repaid before the other facilities), subject to payments of respective Minimum Earns in full
- Facilities are secured by all assets of EOS (save for those of certain foreign subsidiaries)
- There are warranties and representations and general positive and negative undertakings which are customary for a facility of this nature
- The events of default and review included in the agreement are typical for facilities of this nature, including termination or default under material agreements
- Under an agreement with EOS' bond facility provider, EFA, the Existing and New Working Capital facilities rank in priority to the bond facilities provided by EFA.

Financial Covenants

- The following financial covenants apply:
 - **Asset Coverage Ratio**
 - Defined, in general terms, as the ratio of:
 - (a) net tangible assets excluding borrowings, relative to
 - (b) the borrowings of EOS plus the face value of bonds issued, less cash backing provided in relation to the bond facilities
 - Must be more than 1.6 : 1
 - Tested monthly until 31 December 2023 then quarterly
 - **Cashflow Ratios:**
 - **The cash inflows ratio**
 - Defined as the EOS group's actual cash inflows (over a 3 month period), relative to the Company's cash inflow forecast (over that 3 month period))
 - Must be more than 0.9 : 1
 - Tested monthly until 31 December 2023;
 - **The cash outflows ratio**
 - Defined as the EOS group's actual cash outflows (over a 3 month period), relative to the Company's cash outflow forecast (over that 3 month period))
 - Must be less than 1.1 : 1
 - Tested monthly until 31 December 2023;
 - **The Interest Coverage Ratio**
 - Applied on and from 31 December 2023 and tested quarterly, under the New Term Loan Facility
 - Defined as EOS group's Net Cash Flow from Operations (adjusted for interest payments) relative to interest expense
 - Must be more than 2.0 : 1

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 currently operates as three entities – SpaceLink, EM Solutions and Space Technologies. 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. EOS is in the process of ceasing its investment in SpaceLink

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.