

Electro Optic Systems

Aerospace and defence
9 June 2025

Positioned for drone defence

Electro Optic Systems (EOS) is a specialist defence business focused on remote weapons systems (RWS) and counter drone systems. The group is set to benefit from increased defence spend globally along with the rapid emergence of drone warfare and the subsequent requirement for asset protection systems. A strong balance sheet and restructured cost base provide a solid platform through which these opportunities can be leveraged.

Defence spend and drone warfare positive backdrop

Global defence spend increased 11% in 2024, with further growth anticipated given the increasing commitments being made, particularly by NATO members. Key for EOS is the dramatic change in battlefield tactics and the rise in drone warfare, including the use of drone swarms. This is driving a new wave of low-cost, high-integrity defence systems, which, through its traditional kinetic and optical expertise, EOS is well positioned to address.

Significant bid pipeline

EOS has a pipeline of potential major contracts with a total value of over A\$2bn, ranging across the portfolio from traditional kinetic weapons to new technology High Energy Laser Weapons (HELW) development programmes.. The timing of defence contracts tends to be somewhat fluid. However, we note that the most recent European contract award for the group's 'Slinger' counter-drone remote weapon, valued at over A\$53m, was received ahead of expectations in both timing and value (guidance had been <A\$20m).

Significant platform potential

The order book at the start of the year stood at A\$136m, of which c A\$100m is for delivery in FY25. The business has been restructured, but with continued investment in new products it is expected to be loss making in FY25. However, with c 50% gross margins and significant manufacturing capacity, operational leverage should generate positive upside as the order pipeline converts.

Strong balance sheet to support growth

Following the disposal of the EM Solutions business, the group had A\$103.1m cash plus A\$53.8m of cash security deposits at the end of March with all outstanding loans having been repaid. This financial strength provides both flexibility and security for customers, which is critical given the relative size of the group.

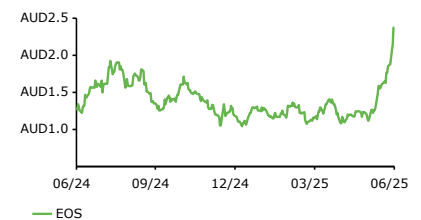
Consensus estimates

Year end	Revenue (AUDm)	PBT (AUDm)	EPS (AUc)	DPS (AUc)	EBITDA (AUDm)	P/E (x)	EV/EBITDA (x)
12/24	176.6	(38.4)	(10.70)	0.00	(12.9)	N/A	N/A
12/25e	157.0	(23.9)	(11.50)	0.00	12.7	N/A	27.9
12/26e	212.0	3.0	3.20	0.00	7.9	74.1	44.8
12/27e	227.0	20.2	7.70	0.00	16.8	30.8	21.1

Source: LSEG Data & Analytics consensus (5 June 2025). Note: Reported PBT and EPS are for underlying continuing operations.

Price AUD2.370
Market cap AUD457m

Share price performance



Share details

Code EOS
 Listing ASX
 Shares in issue 193.0m
 Net cash/(debt) at 31 March 2025 AUD103.1m

Business description

Electro Optic Systems develops advanced technology products and services for the global defence and space domains. Its core products include remote weapon and counter-drone systems, on-the-move satellite communications and advanced space technologies.

Bull points

- Current growth in defence spending.
- Significant order pipeline (c A\$2bn).
- Well-positioned in the growth of drone warfare. Growth opportunities in high-energy laser weapons and space.

Bear points

- Large international military contracts subject to timing uncertainties.
- Reduced global conflict could lead to reduced defence spend.
- Relative scale to the larger defence primes.

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Company overview and recent history

EOS specialises in electro-optics and control platforms, which it commercialises primarily within specialist military applications. The group faced significant problems following over expansion and the impact of the COVID pandemic. A new management team (chair, CEO and CFO) arrived in 2022. The operations were right sized and a significant development project, SpaceLink, was exited. The final element was the disposal of EM Systems, a naval satellite communications business, for A\$144m, which enabled the repayment of all existing debt, leaving the group in a strong net cash position.

The group consists of two divisions:

- The Defence Systems division (94% of FY24 revenues) develops technology for weapon systems optimisation and integration. The key product area is RWS for accurate, rapid firing of kinetic munitions. The latest product incorporates additional counter unmanned aerial systems (CUAS) or drone defence capabilities.
- The Space Systems division (6% of FY24 revenues) specialises in cutting-edge high-energy laser capabilities for space object tracking, characterisation, identification, optical communications and remote manoeuvre.

Investment thesis

EOS has proven capabilities and a broadened product range in its traditional RWS business. This is being augmented through additional anti-drone/CUAS capabilities. In addition, the group's optical expertise positions it to participate in the emerging high-energy laser weapon market. As a consequence, the business is set to benefit not only from the increasing military spend being seen globally but also the changing requirements from the proliferation of drone warfare. Leveraging such business through the restructured cost base should lead to positive margin progression, while the strong net cash position provides stability and optionality.

Market drivers

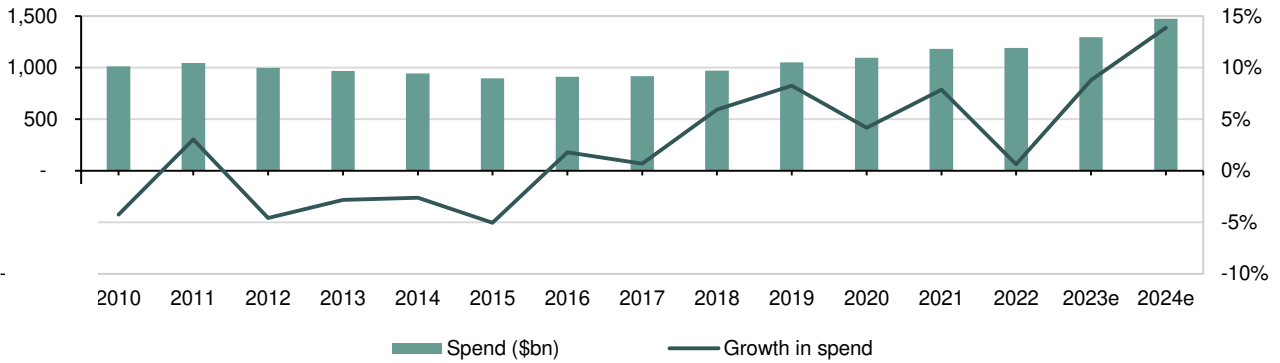
The RWS market is being driven by increasing defence budgets globally combined with the rise in the use of drones in modern warfare.

Increasing defence spend

Global defence spend increased by 6% in 2022, 8% in 2023 and 11% in 2024 (3%, 7% and 10% growth excluding Russia and Ukraine, which together account for c 8% of total spend; source: Stockholm International Peace Research Institute). The increased spend and future commitments for those nations not currently in conflict is being driven by a range of factors:

- Donation of weapons to Ukraine and the subsequent requirement to re-arm.
- The increase in conflicts, including Ukraine and the Middle East, suggests the end of the 'peace dividend', raising awareness of global tensions. In turn this has highlighted the limitations of individual nations' capabilities, perhaps best highlighted by the inability of Europe to propose a fully functioning peace keeping force for any Ukraine/Russia peace settlement.
- President Trump has clearly signalled an end to the US as the global protector. In 2023 NATO leaders agreed to spend at least 2% of GDP on national defence budgets, with 22 of the 32 member countries achieving this in 2024, up from seven in 2022, with many members committing to further increase spend to 2.5% of GDP (eg the UK by 2027). A new goal is set to be discussed in June, with some countries in principle backing a new plan to broaden NATO spending beyond traditional items such as troops and weapons. The plan calls for a target of 5% of GDP by 2032, with 3.5% on hard military spending and 1.5% on related spending such as on infrastructure and cybersecurity.

Exhibit 1: NATO defence spend (\$tn)



Source: NATO

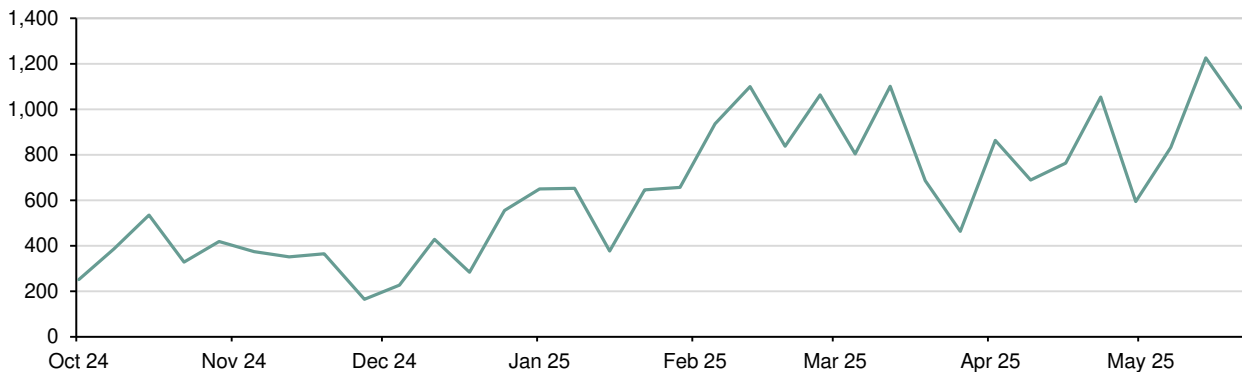
Increase in drone warfare

The use of drones has risen significantly in recent years, driven by the low cost against traditional military hardware, increasing technology advances significantly enhancing capabilities and the successes on the battlefield, particularly in Ukraine. Arguably this has driven a new tactical front with the emergence of 'drone warfare'. Drones offer positive tactical advantages, reduced personnel losses and the ability to fight on both a military and an economic basis, with drones costing up to US\$35k for the longest range. This is resulting in the use of drone swarms as part of the new battle between drones and anti-drone systems.

The scale of this new front is clearly accelerating. Exhibit 2 highlights Ukraine's military claims for destroying Russian drones. While highlighting the direction of travel, it appears to significantly underestimate the number of drones being used in the conflict:

- Reuters reported in September 2024 that Putin claimed that the Russian military received 140,000 drones in 2023, with production to increase 'almost 10 times' in 2024.
- Ukraine claims its Ministry of Defence procured thousands of drones in 2023, over 1.5m in 2024 and expects this to increase further in 2025 'as the capacity of Ukraine's defense industry is approximately 4.5 million FPV drones' (source: Ukraine Ministry of Defence).
- The UK claims to have supplied 10,000 drones in 2024, with a promise to increase this to 100,000 in 2025.

Exhibit 2: Ukraine claimed UAV strikes per week



Source: Ministry of Defence of Ukraine

Drone defence systems

The emergence of drones as an offensive front-line weapon has spawned a range of new technologies offering different defence capabilities suitable for differing applications. The systems are segmented into in two categories: safe 'soft kill'

systems and kinetic 'hard kill' systems.

Safe 'soft kill' systems

These systems look to interfere with the ground control or internal control systems to stop the drone from reaching its intended mission. This involves jamming the control systems from the ground or spoofing the drone to redirect it using radio to infrared and optical waves. Such systems are generally effective over shorter distances (<1km). With limited collateral damage, these systems are particularly suited to civil applications. Drones, particularly military drones, are increasingly becoming pre-programmed and autonomous, or using direct control through fibre optic links limiting the effectiveness of such technology.

Kinetic 'hard kill' systems

Hard kill systems use physical intervention to capture or destroy the drone. These are based on traditional ballistic systems complemented by increasing identification and firing control systems. The shift is now towards the use of high-energy weapons using lasers and microwave systems. They are generally effective over longer distances (>1km). Clearly there is greater collateral damage potential.

As drone warfare proliferates, a key issue for defence strategy is the cost of engagement in this economic as well as military battle. Exhibit 3 highlights the cost of engagement for the different technologies.

Exhibit 3: Drone defence systems, estimated cost per engagement

Method of engagement	Cost per engagement (US\$)
Laser	1-10
Cannon	100
Rocket	20k
Guided missile	300k-1m

Source: EOS

In terms of defence procurement focus on this arena, we note some significant recent contracts highlighting both the level of interest and the scale of the opportunities:

- Anduril Industries has received a US\$642m, 10-year indefinite delivery/indefinite quantity (IDIQ) order from the US Marine Corps for its AI-powered installation-counter small unmanned aircraft systems (I-CsUAS) solutions.
- Raytheon has a US\$1bn agreement with Qatar for the Fixed Site – Low, Slow, Integrated Defeat System (FS-LIDS), designed to detect, track and neutralise small, slow-moving drones. The system integrates radar, electro-optical/infrared sensors and effectors, such as jamming or kinetic interceptors, to respond to unmanned aerial threats.

It is also worth noting President Trump's recent comment on the 'Golden Dome' missile defence system, with an initial budget of US\$25bn rising to US\$175m, with an aim to be operational before the end of the decade.

EOS key activity profile

Remote weapons systems

EOS's systems control the firing process of weapons (eg cannons supplied by third parties). They enable rapid fire along with the potential for remote operation (eg from inside a vehicle), allowing the operator/soldier to remain in a protected environment, offering reduced personnel risk. Such systems are required to be rugged, reliable and easy to use, and to be platform agnostic, able to be integrated into a range of vehicles and operate a range of munitions. Accuracy is inevitably critical, and EOS can draw on its tracking sensors and software from the group's optical heritage.

The product offering has been broadened in recent years, in particular at the lighter end, with the R150 operating weapons up to 12.7mm calibre, while at the higher end the R800 can handle multiple weapons simultaneously (ie including machine guns and missiles) along with heavy calibre guns up to 175mm. The newest offering, launched in 2025, is the R500, which integrates AI-driven targeting, high-elevation counter-unmanned aerial systems (C-UAS) capabilities and multi-weapon adaptability.

Exhibit 4: Key product offering groups

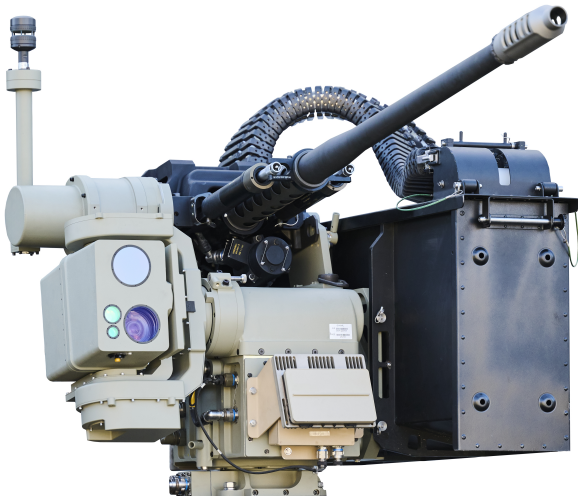


Source: EOS

Counter drone systems

EOS systems use a combination of technologies to identify and defeat unmanned aerial vehicles (UAVs), primarily drones. They are platform agnostic systems with traditional kinetic, soft kill such as radio jammers and directed energy capabilities. Key is the ease of operation combined with a high degree of accuracy honed from the traditional RWS systems.

Exhibit 5: EOS Slinger



Source: EOS

Exhibit 6: High Energy Laser Weapons



Source: EOS

High-energy laser weapons: Next-generation technology

EOS intends to focus its high-energy laser weapon (HELW) systems in the 50–150kW power band, while larger systems range up to 500kW. The lower power limits the range but also permits a higher number of engagements per unit of energy stored (ie more engagements per battery life), making such systems appropriate for front-line engagement and hence more compatible with EOS's RWS activities. EOS's RWS expertise in areas such as identifying and tracking as well as firing are assisting in developing such a product. Development costs for this new technology are high, hence EOS's preference is to sign early development contracts.

The larger end of the power market is more applicable for longer range and therefore defence against larger missiles and is therefore the domain of the larger prime contractors, such as Raytheon and Northrop.

Space Systems

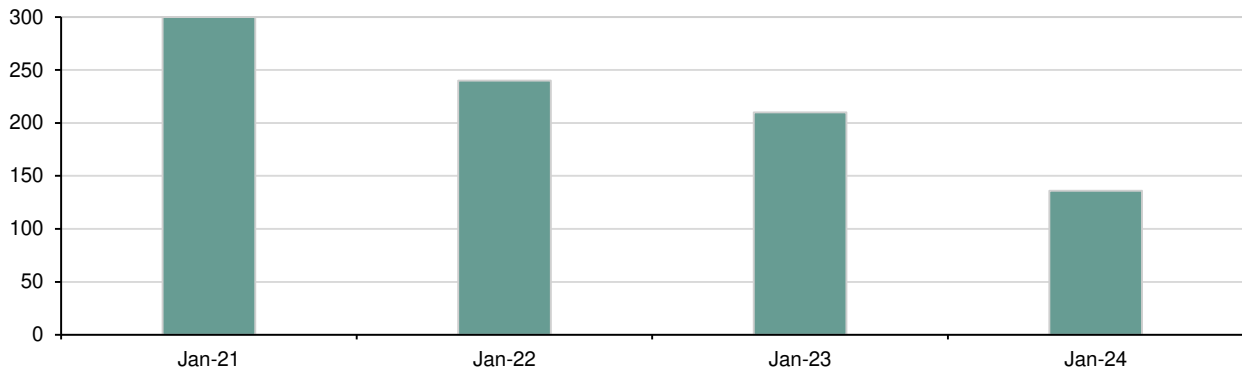
EOS offers a range of specialist optical products and services for the space arena. The business has expertise in space tracking and selling information, such as data on space debris, to third parties. KiwiStar Optics provides bespoke components to complete units, with specialism in high-end optics manufacture. Services provided include high-

energy laser capabilities for space object tracking, characterisation, identification, optical communications and remote manoeuvre.

Order backlog and pipeline

The order book has declined in recent years, primarily due to the fulfilment of a large contract in the Middle East, which is now completed, and new contract awards being delayed, a common issue in the defence arena. A good example is the A\$181m conditional contract signed with Ukraine in 2023, which is still progressing to final sign-off. Of the A\$135m order book at the year end, c A\$100m is expected to convert to revenues in 2025.

Exhibit 7: Order book (A\$m)



Source: EOS

More encouraging was the recent contract award, valued at over A\$53m, for EOS's flagship 'Slinger' Counter-Drone RWS to be configured for naval deployment. We note that previous management guidance had been for <A\$20m in value (see R400 Marine Slinger in the 'Evaluation' opportunities in Exhibit 4), highlighting the volatility in the award of such programmes.

EOS has a significant pipeline of major opportunities, with total potential of over A\$2bn, at different stages of the bid process. The timing of military contracts is always uncertain. However, within the 'Advanced' category in Exhibit 8 we note: the Australian Defence Force contract is to equip 129 Redback Infantry Fighting Vehicles (IFVs) already ordered under LAND 400 Phase 3, hence this programme will clearly progress; the Ukraine order may be assisted by additional European spend/support; while either of the HELW potential contracts would clearly demonstrate EOS capabilities in this arena as well as assisting finance development.

Exhibit 8: Key order opportunities (at 30 April 2025)

Opportunity maturity	Product	Size (A\$m)	Region	Comment
Advanced	R400	80–100	Australia	ADF requirement, contract with Hanwha (military vehicles)
	R800	20–30	North America	System upgrade
	R400	~181	Ukraine	Agreed in 2023, awaiting sign-off
	HELW 100kW	50–100	International	Detailed discussions
	HELW 100kW	50–100	International	Detailed discussions / requote on spec change
Evaluation	R500	>500	Middle East	Follow on order (donation to Ukraine)
	R400 Spares	<20	Middle East	Sustainment contract
	R400 Marine Slinger	<20	Europe	Existing customer
	R400 Marine	15–25	Australasia	Existing customer
Preliminary	R150	100–300+	Europe	Equip logistics fleet, new customer
	R400 Slinger	<50	Europe	Follow on order (donation to Ukraine)
	R400	<50	North America	Bid submitted through prime
	R400	<50	Europe	Bid submitted through prime
	R400 Slinger	<100	International	New customer opportunity
	R400	<100	International	New customer opportunity
Emerging	R400 Slinger	10–50	Europe	New customer, early stage
	R400 Slinger	<50	North America	Market size >400 vehicles
	R800	<100	Middle East	Upgrade opportunity
	HELW 100kW	100–200+	Middle East	Existing customer product addition
	Space Control	<10–100+	International	Initial discussion with multiple potential customers

Source: EOS

Financials

Recent results and forecasts

The key highlight of FY24 was the transformational disposal of the EM Solutions business for A\$144m, which was completed in 2025, leaving the group in a strong cash positive position of A\$103.1m at the end of March plus A\$53.8m of cash security deposits (pro-forma).

The ongoing operations' sales increased 9% to A\$176.6m, gross margin increased 3% to 48% assisted by pricing discipline and cost efficiencies, including the benefit of previous restructuring. However, underlying EBITDA from continuing operations was flat at a loss of A\$12.9m, reflecting additional investment. This can clearly be seen in employee costs to sales increasing from 33% to 35%. Consequently, the group reported an underlying operating loss from continuing operations of A\$25.4m.

Further details can be found in the financial summary (Exhibit 9). The next update is expected to be the interim results in July.

Operational gearing potential

Edison does not provide financial forecasts for EOS at present. We note consensus for FY25 of sales of A\$157m and a loss before tax of A\$24m. The group has significant manufacturing capacity, suggesting positive operational gearing from additional revenue. Indeed, with gross margins of around 50% (FY24: 48%), an extra A\$100m of revenue, which the current order pipeline suggests is achievable, would turn the current consensus EBIT loss of c A\$19m (negative margin of 12%) to a profit of c A\$30m (positive operating margin of c 11.6%). Clearly there would be some additional costs, although, given the global footprint in place and investment already being undertaken, we would expect this to be limited.

Exhibit 9: Financial summary

Year end 31 December	2020	2021	2022	2023	2024
A\$m	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	180.2	212.3	137.9	162.0	176.6
Cost of Sales	(116.0)	(111.6)	(91.4)	(89.7)	(91.9)
Gross Profit	64.2	100.8	46.5	72.3	84.7
Admin & other costs	(67.1)	(98.7)	(89.4)	(85.4)	(97.6)
EBITDA	(2.9)	2.1	(42.9)	(13.0)	(12.9)
Depreciation & amortisation	(9.6)	(11.8)	(11.1)	(9.4)	(12.5)
Operating profit (before amort. and excepts.)	(12.5)	(9.7)	(54.0)	(22.5)	(25.4)
Exceptionals	(16.0)	8.0	5.4	2.1	11.6
Reported operating profit	(28.5)	(1.7)	(48.6)	(20.4)	(13.9)
Net Interest	(1.4)	(2.9)	(14.3)	(35.2)	(24.6)
Profit Before Tax (norm)	(13.9)	(12.6)	(68.2)	(57.7)	(50.0)
Profit Before Tax (reported)	(29.9)	(4.6)	(62.9)	(55.6)	(38.4)
Reported tax	4.7	(9.2)	9.3	11.2	3.3
Profit After Tax (reported) - continuing businesses	(25.2)	(13.8)	(53.6)	(44.4)	(35.1)
Discontinued operations	0.0	0.0	(62.0)	10.3	15.4
Reported profit for the year including discontinued operations	(25.2)	(13.8)	(115.6)	(34.1)	(19.6)
EPS - basic reported (c)	(19.5)	(10.0)	(35.8)	(20.9)	(10.7)
BALANCE SHEET					
Fixed Assets	130.7	173.4	155.7	173.8	96.1
Intangible Assets	34.6	32.0	24.8	30.7	21.2
Contracts & deposits	30.3	48.6	72.1	84.9	36.7
Tangible Assets	29.1	56.1	37.2	29.5	13.0
Investments & other	36.7	36.7	21.6	28.7	25.1
Current Assets	306.6	284.8	261.6	219.4	304.9
Stocks	67.3	74.6	74.8	73.4	62.7
Debtors	35.8	23.5	7.4	8.5	17.7
Contracts & deposits	137.6	127.2	145.5	50.2	70.1
Cash & cash equivalents	65.9	59.3	21.7	71.0	41.1
Other	0.0	0.2	12.2	16.4	113.3
Current Liabilities	70.8	96.9	104.8	115.5	154.7
Creditors	52.2	35.4	43.2	40.8	28.2
Contract liabilities		7.7	22.2	20.6	24.1
Short-term borrowings including finance leases	0.0	34.4	23.3	19.9	47.9
Other	18.6	19.4	16.1	34.2	54.4
Long-Term Liabilities	27.0	31.9	79.5	78.7	26.8
Long-term borrowings including finance leases	17.7	24.7	69.9	64.0	13.3
Other long-term liabilities	9.3	7.2	9.6	14.7	13.5
Net Assets	339.5	329.4	233.0	199.1	219.5
Minority interests				4.0	5.0
Shareholders' equity attributable to owners	339.5	329.4	233.0	203.1	224.5
CASH FLOW					
EBITDA	(2.9)	2.1	(42.9)	(13.0)	(12.9)
Working capital	(110.2)	22.2	(15.2)	122.6	5.7
Exceptional & other	24.1	(21.8)	7.5	(13.2)	(22.6)
Tax	(12.0)	(2.6)	(1.0)	16.7	(0.5)
Net Operating Cash Flow	(100.9)	(0.2)	(51.6)	113.1	(30.4)
Investment activities	(7.3)	(8.7)	(11.2)	(31.8)	15.2
Capex	(29.7)	(29.0)	(19.3)	(2.9)	(11.6)
M&A/Other	0.0	0.0	2.2	0.0	0.0
Equity financing	138.6	(0.8)	14.6	0.0	34.9
Other	0.0	0.0	0.0	0.0	0.0
Net Cash Flow	0.7	(38.7)	(65.3)	78.4	8.3
Movement in debt & leases	(3.3)	31.1	34.9	(29.0)	(25.7)
Other non-cash movements	(9.4)	1.0	(7.2)	(0.0)	(1.2)
Movement in cash	(12.0)	(6.6)	(37.6)	49.3	(18.7)
Closing (cash)	(65.9)	(59.3)	(21.7)	(71.0)	(52.3)
Closing net debt/(cash) excluding finance leases	(65.9)	(24.9)	51.0	(6.2)	6.9

Source: EOS

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