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Electro Optic Systems (EOS)

From the Gulf of Finland to the Black Sea

Recommendation

Buy (unchanged)

Price

\$9.45

Target (12 months)

\$11.00 (previously \$5.70)

Sector

Capital Goods

Expected Return

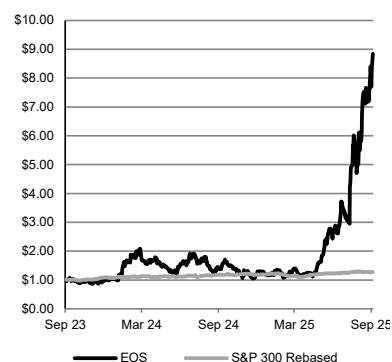
Capital growth	16.4%
Dividend yield	0.0%
Total expected return	16.4%

Company Data & Ratios

Enterprise value	\$1.7b
Market cap	\$1.8b
Issued capital	193m
Free float	97%
Avg. daily val. (52wk)	\$6.4m
12 month price range	\$0.995-9.53

Price Performance

	(1m)	(3m)	(12m)
Price (\$)	6.12	2.71	1.42
Absolute (%)	54.4%	248.7%	565.5%
Rel market (%)	55.7%	244.6%	561.4%

Absolute Price


SOURCE: IRESS

... a drone wall descends across Europe

EU Defence Commissioner Andrius Kubilius says the bloc will build a “drone wall” along the eastern flank, integrating detection, tracking and interception to counter hostile UAVs. After recent airspace violations, EU defence ministers agreed to move from “discussion to concrete action”, with a shared drone-detection network targeted within about a year, followed by deeper layers over time. Further details are expected at early-October EU meetings in Copenhagen and Brussels.

Contract signings delayed; revenue deferred

EOS has provided CY25e revenue guidance of \$115-125m, lower than BPe of \$166m and an updated contract backlog of \$299m as of 29 September 2025. The weaker than expected guidance reflects delayed signing of orders from the previously expected 3Q25 signing out to 4Q25 or 2026 and hence pushing revenue into 2026. EOS has identified an additional \$25m of revenue which may fall into 2025 if orders are signed in sufficient time to enable delivery in 2025. In addition, EOS disclosed a new ~\$20m “advanced opportunity” to sell RWS to a European customer to be delivered within the next 6 months.

EPS changes

We have deferred \$46m of CY25e revenue into CY26e (\$36m) and CY27e (\$10m), culminating in a CY25e EPS loss of 30c (prev. 17c) and EPS upgrades of 94% and 12% in CY26/27e respectively. We upgrade our TP reflecting a higher CY26e EV/EBITDA multiple due to strengthened confidence in longer term revenue growth.

Investment View: Retain Buy, \$11.00 PT (prev. \$5.70)

EOS is positioned as a market leader in counter-UAS solutions, in particular directed energy, and is fully leveraged to increases in defence budgets globally magnified by higher spending allocations to counter-drone technology. The EU “drone wall” is one such example underscoring the critical need for counter-UAS. We see positive news flow over the next 6 months stemming from counter-UAS and RWS contract awards.

Earnings Forecast

Year ending 31 December	2024a	2025e	2026e	2027e
Sales (\$m)	177	120	293	295
EBIT (\$m)	(13)	(27)	44	43
NPAT (reported) (\$m)	(34)	(60)	27	25
NPAT (adjusted) (\$m)	(45)	(60)	27	25
EPS (adjusted) (¢ps)	(24.8)	(29.7)	13.2	12.2
EPS growth (%)	na	na	na	-7.8%
PER (x)	-38.0x	-31.8x	71.7x	77.7x
FCF Yield (%)	-1.6%	10.4%	-2.6%	1.5%
EV/EBIT (x)	-67.4x	-37.1x	54.2x	56.5x
Dividend (¢ps)	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-21%	-25%	9%	9%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Forecast and Valuation Changes

Changes to forecasts

CY25e revenue deferred into CY26/27e: We have downgraded CY25e revenue by \$46m (-28%) to sit in the middle of the company's guided CY25e revenue range of \$115-125m. We have shifted all of this revenue into CY26e (\$36m) and CY27e (\$10m).

A summary of the changes in our key forecasts is shown below.

Figure 1 - Change in key forecasts

Year ending 30 June	Previous			New			Change		
	CY25	CY26	CY27	CY25	CY26	CY27	CY25	CY26	CY27
Revenue \$m	166	257	286	120	293	295	-28%	14%	3%
EBITDA \$m	-2	27	39	-27	44	43	na	64%	11%
EBIT \$m	-21	14	26	-46	32	30	na	119%	17%
NPAT \$m	-35	14	22	-60	27	25	na	94%	12%
Diluted EPS cps	-17.2	6.8	10.9	-29.7	13.2	12.2	na	94%	12%
DPS cps	0.0	0.0	0.0	0	0	0	na	na	na

SOURCE: BELL POTTER SECURITIES ESTIMATES

94% increase in TP to \$11.00/sh

We have updated each valuation used in the determination of our price target for the earnings changes as well as market movements.

We have lowered our risk-free rate from 4.50% to 4.25%, reflecting lower observed 10-year Aus government bond yields. We raise our EV / EBITDA multiple to 70x from 40x reflecting strengthened confidence in longer term revenue growth following the European Drone Wall revelation.

The change in each valuation and the impact on our PT calculation is shown below.

Figure 2 - Change in valuations and impact on PT

Valuation method	Old (as at 22/8/25)		New (as at 29/9/25)	
	Wgt (%)	Val. (\$/sh)	Wgt (%)	Val. (\$/sh)
DCF	50%	2.77	50%	3.19
EV/EBITDA	50%	2.91	50%	7.83
Blended equity valuation	100%	5.68	100%	11.01
Current share price				9.45
Upside to current share price (%)				17%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Electro Optic Systems (EOS)

Company Description

Electro Optic Systems (EOS) is an Australian defence manufacturer specialising in advanced weapon systems and satellite tracking technology. The company operates two distinct divisions: EOS Defence Systems and EOS Space Systems, which service a range of military customers around the globe. EOS has offices on four continents and employs a global workforce of around 400 including engineers, technicians and management.

Investment Thesis

EOS is positioned as a market leader in counter-UAS solutions, in particular directed energy, and is fully leveraged to increases in defence budgets globally magnified by higher spending allocations to counter-drone technology. The EU “drone wall” is one such example underscoring the critical need for counter-UAS. We see positive news flow over the next 6 months stemming from counter-UAS and RWS contract awards.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Sales Revenue Risk:** The nature of the industry in which EOS operates suggests a significant proportion of future sales revenue will likely materialise in the form of one-off contracts, often with no recurring revenue. This indicates any failure to continue winning new contracts will impact revenue growth and financial performance.
- **Supply Chain Risks:** In recent years, the company’s operations were severely impacted by the COVID-19 pandemic. In future, the group’s continuing operations may be affected by a range of factors, including the interruption of availability of materials and components caused by supply chain issues, access to operational premises and access to high-level engineering skills and personnel and to customer and supplier facilities and equipment.

Electro Optic Systems

as at 29 September 2025

Recommendation

Buy

Price

\$9.45

Target (12 months)

\$11.00

Table 1 - Financial summary

Date		29/09/25					Bell Potter Securities						
Price	A\$/sh	9.45					Baxter Kirk (bkirk@bellpotter.com.au, +61 3 9235 1625)						
Target price	A\$/sh	11.00											
PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending 31 December	Unit	2023a	2024a	2025e	2026e	2027e	Year ending 31 December	Unit	2023a	2024a	2025e	2026e	2027e
Revenue	A\$m	162	177	120	293	295	VALUATION						
Change	%	17%	9%	-32%	144%	1%	EPS (adjusted)	Ac/sh	(27.9)	(24.8)	(29.7)	13.2	12.2
Gross profit	A\$m	72	85	66	142	143	EPS growth	%	na	na	na	na	-7.8%
Margin	%	45%	48%	55%	48%	49%	PER	x	-33.9x	-38.0x	-31.8x	71.7x	77.7x
Operating costs (excl. D&A)	A\$m	(85)	(97)	(93)	(98)	(100)	DPS	Ac/sh	-	-	-	-	-
EBITDA	A\$m	(13)	(13)	(27)	44	43	Dividend yield	%	0%	0%	0%	0%	0%
Depreciation & amortisation	A\$m	(9)	(13)	(19)	(12)	(13)	Franking	%	0%	0%	0%	0%	0%
EBIT	A\$m	(22)	(25)	(46)	32	30	FCF/share	Ac/sh	49.2	(15.2)	98.2	(24.3)	13.7
Margin	%	-14%	-14%	-38%	11%	10%	FCF yield	%	5.2%	-1.6%	10.4%	-2.6%	1.5%
Net interest expense	A\$m	(35)	(23)	(14)	4	3	EV/EBITDA	x	-132.4x	-133.5x	-63.3x	38.9x	39.4x
Profit before tax	A\$m	(57)	(48)	(60)	36	33	EV/EBIT	x	-76.6x	-67.4x	-37.1x	54.2x	56.5x
Tax expense	A\$m	11	3	-	(9)	(8)	EV/NOPAT	x	-95.4x	-72.4x	-49.5x	72.3x	75.4x
NPAT	A\$m	(46)	(45)	(60)	27	25	P/NTA	x	8.9x	8.4x	8.2x	7.2x	6.6x
Adjustments (post-tax)	A\$m	-	-	-	-	-	LIQUIDITY & LEVERAGE						
Reported NPAT	A\$m	(47)	(34)	(60)	27	25	Net debt / (cash)	A\$m	18	25	(160)	(108)	(129)
CASH FLOW STATEMENT							Net debt / Equity	%	9%	11%	nm	nm	nm
OPERATING CASH FLOW							Net debt / Net debt + Equity	%	8%	10%	nm	nm	nm
Receipts from customers	A\$m	325	261	177	267	295	Net debt / EBITDA	x	nm	nm	5.9x	nm	nm
Payments to suppliers & employees	A\$m	(216)	(268)	(129)	(289)	(251)	EBITDA / Net interest expense	x	nm	nm	38.0x	nm	nm
Other	A\$m	4	(23)	(14)	(5)	(5)	PROFITABILITY RATIOS						
Operating cash flow	A\$m	113	(30)	34	(27)	38	EBITDA margin	%	-8%	-7%	-22%	15%	15%
INVESTING CASH FLOW							EBIT margin	%	-14%	-14%	-38%	11%	10%
Payments for PPE	A\$m	(3)	(6)	(10)	(5)	(6)	Return on assets	%	-11%	-11%	-17%	7%	6%
Payments for intangibles	A\$m	-	(5)	(7)	(5)	(6)	Return on equity	%	-22%	-21%	-25%	9%	9%
Other	A\$m	(32)	15	172	(10)	(0)	Return on invested capital (EBIT)	%	-12%	-13%	-33%	24%	17%
Investing cash flow	A\$m	(35)	4	155	(20)	(11)	SEGMENTAL ASSUMPTIONS						
Free cash flow	A\$m	78	(27)	189	(47)	27	Defence revenue	A\$m	155	166	110	276	276
FINANCING CASH FLOW							Space revenue	A\$m	7	11	10	18	19
Proceeds from share issues (net)	A\$m	-	37	-	-	-	HALF YEAR PROFIT & LOSS						
Debt proceeds / (repayments)	A\$m	(24)	(21)	(48)	-	-	Revenue	A\$m	105	71	44	76	147
Repayment of lease liabilities	A\$m	(5)	(5)	(5)	(5)	(5)	Gross profit	A\$m	46	38	33	33	59
Dividends paid	A\$m	-	-	-	-	-	EBIT	A\$m	-	-	-	32	30
Other	A\$m	-	(2)	-	-	-	NPAT	A\$m	-	-	-	27	25
Financing cash flow	A\$m	(29)	9	(53)	(5)	(5)	VALUATION						
Change in cash	A\$m	49	(17)	136	(52)	21	Diluted shares on issue						204m
BALANCE SHEET							Valuation method						Wgt (%) Val. (\$/sh)
ASSETS							DCF						50% 3.19
Cash	A\$m	71	41	177	125	147	EV/EBITDA						50% 7.83
Receivables	A\$m	8	18	13	29	29	Blended equity valuation					100% 11.01	
Inventory	A\$m	73	63	46	106	106	Current share price						9.45
Security deposits	A\$m	67	49	34	44	44	Upside to current share price (%)					17%	
Contract asset	A\$m	68	57	5	15	15							
PPE	A\$m	30	13	13	16	18							
Goodwill	A\$m	12	3	3	3	3							
Other intangibles	A\$m	18	19	20	19	19							
Other assets	A\$m	45	138	44	45	46							
Total assets	A\$m	393	401	355	402	427							
LIABILITIES													
Payables	A\$m	41	28	29	50	50							
Borrowings	A\$m	65	48	-	-	-							
Lease liabilities	A\$m	24	18	18	17	17							
Other liabilities	A\$m	65	87	61	61	61							
Total liabilities	A\$m	194	182	108	129	129							
NET ASSETS													
Share capital	A\$m	432	467	467	467	467							
Reserves	A\$m	13	18	18	18	18							
Retained earnings	A\$m	(242)	(261)	(233)	(206)	(182)							
SHAREHOLDER EQUITY	A\$m	199	220	247	274	298							
Weighted average shares	m	159	175	193	193	193							

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

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Disclosure: Bell Potter Securities acted as joint lead manager and underwriter for the \$35m capital raising in March 2024 and received fees for that service.

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