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Converting Defence Demand to Delivery

Evolution Capital provides an update on Electro Optic Systems Holdings Ltd ("EOS"), a leading Australian provider of advanced defence and space technology. On 30 June 2025, EOS announced the finalisation of a long-standing contract with a Middle Eastern customer, unlocking A\$12 million in previously constrained revenue for 1H 2025. More significantly, EOS received A\$60 million in cash payments. This milestone materially strengthens EOS's liquidity profile and removes a historical overhang from its order book.

In parallel, EOS's firm order backlog has grown to A\$170 million, up from A\$136 million on 31 December 2024. The company also confirmed its full-year 2025 revenue will be heavily weighted towards the second half, with delivery expected to ramp materially across several key programs including CUAS, HELW, and RWS systems. We reaffirm our SPEC BUY recommendation and increase our fair valuation to A\$3.65 per share. While CY25 forecasts are unchanged, we have increased our CY26 revenue assumptions to reflect stronger contract visibility and management's proven ability to convert pipeline opportunities.

Commercial Momentum Builds

With A\$60 million received from the settlement of a longstanding Middle East contract, EOS now holds A\$130 million in unrestricted cash and A\$53.8 million in restricted funds, totalling A\$183.8 million in cash reserves. This financial reset provides additional flexibility as the company moves to execute its A\$170 million contracted backlog. With multiple CUAS, HELW, and RWS deals in late-stage negotiation, EOS is well positioned to expand its presence across key allied defence markets.

Sovereign Demand Tailwinds Strengthen

EOS's technologies align directly with global defence priorities around drone threat mitigation and space domain awareness. Its CUAS and HELW solutions address pressing capability gaps exposed by current conflicts in Ukraine and the Middle East. As allied governments accelerate procurement of autonomous defence solutions, EOS stands to benefit from its proven, deployable systems portfolio and established sovereign supply chain credentials.

Execution De-risked, Re-rating Potential Remains

With a signed backlog of A\$170 million and delivery visibility into H2 2025 and 2026, EOS enters a more predictable execution phase. The company's debt-free balance sheet, established production base, and advancing pipeline reduce operational risk. We maintain our SPEC BUY rating with a revised fair value of A\$3.65. At the current share price of A\$2.85, we believe the market undervalues EOS's improved revenue visibility and multi-year growth profile.

Recommendation	SPEC BUY
Share Price	\$2.85
Fair Valuation	\$3.65

Company Profile

Market Cap	~\$550M
Enterprise Value	~\$366M
Free Float	~86%
52-Week Range	\$0.995 - \$3.0
Cash	~184m

Price Performance



Company Overview

EOS is an Australian defence technology company specialising in advanced weapon systems, counter-drone solutions, and space domain control. Its precision platforms and targeting systems offer high performance, scalability, and cost-efficiency for modern military operations.

Analyst

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Industrials Analyst

Click [here](#) to access Evolution Capital's Initiation Report of Electro Optic Systems published 29 May 2025.

Catalyst	Timeline
Recognition of A\$34M new awards, backlog increased to A\$170M	H2 2025
First commercial contract for High-Energy Laser Weapon (HELW)	H2 2025 – Early 2026
Contract award for R500 next-generation RWS (not operational deployment)	Early 2026
Inaugural contract award for R800 (North America)	H2 2025
Ramp-up of R800 production at U.S. facility (Huntsville, Alabama)	H2 2025
Land 400 Phase 3 contract (Australia)	2025–2026 (delivery later)
New SSA / Space Control government contract (e.g., Australia / Five Eyes)	H2 2025
Continued demonstration-linked sales of containerised Slinger CUAS platforms	Ongoing in 2025

EOS Strengthens Foundation for Global Growth

Electro Optic Systems Ltd (ASX:EOS) has taken a decisive step forward with the finalisation of a legacy contract in the Middle East, resolving a longstanding receivables overhang and unlocking a near-term cash inflow of approximately A\$60 million. This milestone addresses a key overhang on investor confidence, reinforces EOS's commercial credibility, and significantly strengthens its balance sheet ahead of a pivotal delivery period in the second half of 2025.

The update coincides with broader momentum across the global defence and space sectors. The war in Ukraine has intensified demand for counter-drone and mobile protection systems, while rising tensions in the Middle East continue to accelerate procurement of modular, sovereign-ready weapon platforms. In parallel, the weaponisation of space and increasing counterspace activity have brought space domain awareness and satellite tracking into sharper strategic focus for allied nations. These trends are directly aligned with EOS's product portfolio, spanning Counter-UAS (CUAS), Directed Energy Weapons (DEW), and Space Situational Awareness (SSA).

Since our Initiation Report dated 29 May 2025, we have left our CY25 revenue forecast unchanged at A\$164.5 million, reflecting the known second-half weighting of backlog execution. However, we have significantly upgraded our expectations from CY26 onward, as conversion visibility improves and EOS builds momentum across multiple near-term tenders. We now forecast CY26 revenue of A\$244.3 million (up 22.4 percent from previous estimates), with projected revenue reaching A\$524.7 million by CY30. These revisions are driven by a combination of market expansion, stronger capture assumptions in CUAS and DEW, and increasing confidence in EOS's execution platform.

Most notably, the recently received A\$60 million cash payment has materially reset EOS's funding position. The company now holds A\$130 million in unrestricted cash and a further A\$53.8 million in restricted accounts, bringing total cash reserves to A\$183.8 million. With no financial debt and full funding capacity in place, EOS is well positioned to deliver on its contracted backlog and pursue high-value defence opportunities through 2026 without equity dilution.

Operational Progress and Scaling Outlook

EOS has entered the execution phase of its transformation. With a cleared legacy receivable and accelerating order activity, the company is now focused on converting backlog into revenue and margin-accretive growth.

The finalised Middle East contract has not only unlocked A\$12 million in recognised revenue in 1H25 but also contributed around A\$60 million in cash receipts. This development removes uncertainty around a multi-year issue and confirms EOS's ability to close and monetise complex contracts.

Backlog momentum continues to build. As of June 2025, EOS's unconditional backlog stands at A\$170 million, up from A\$136 million at December 2024. Several additional contracts are reported to be in advanced negotiation, including two HELW programs and an export-focused CUAS package, both of which are expected to close in the second half.

The company is also progressing key milestones across its core platforms. The HELW system has completed technical demonstration and is prepared for operational deployment. CUAS systems, including the Slinger platform, have been validated in live-use environments. EOS's RWS product family continues to gain traction, and the company reports no capacity or supply chain constraints that would limit scale-up into 2026.

From a financial perspective, EOS is positioned to benefit from operational leverage beginning in CY26. With core systems validated, facilities operational, and marginal capacity already in place, further scaling can be achieved with limited incremental investment.

Valuation

We maintain our SPEC BUY recommendation on Electro Optic Systems and revise our fair valuation to A\$3.65 per share, based on an updated discounted cash flow (DCF) model. This reflects a re-rating of the company's medium-term growth profile, underpinned by a materially strengthened balance sheet, improved contract visibility beyond CY25, and a demonstrably scalable operational platform.

EOS is now entering a sustained delivery phase with a growing, multi-domain backlog across CUAS, DEW and SSA. We believe the company is at an inflection point, moving from early-stage execution into more predictable multi-year revenue generation. Our revised valuation recognises:

- The strategic de-risking of EOS's financial position via a ~A\$60 million cash inflow
- Increased forecast confidence from CY26 onward, supported by backlog growth and near-term award momentum
- Continued alignment of EOS's product roadmap with global procurement trends in defence and space

While our CY25 revenue forecast remains unchanged at A\$164.5 million, we have increased revenue expectations from CY26 through CY30, reflecting higher expected market share across all three core domains and stronger TAM growth. These assumptions are supported by recent defence spending trends, procurement document analysis, and EOS's improving competitive position.

Table 1: Updated Revenue Forecast

Market	CY25	CY26	CY27	CY28	CY29	CY30
Counter-UAS	4,420.00	5,440.00	6,800.00	8,500.00	10,626.00	13,278.00
EOS Market Share	1.56%	1.60%	1.65%	1.70%	1.76%	1.80%
Revenue	68.95	87.04	112.20	144.50	187.02	239.00
Directed Energy Weapons (DEW)	16,150.00	18,360.00	20,740.00	23,460.00	26,503.00	29,997.00
EOS Market Share	0.45%	0.64%	0.68%	0.71%	0.74%	0.77%
Revenue	72.68	117.50	141.03	166.57	196.12	230.98
Space Situational Awareness (SSA)	4,080.00	4,420.00	4,675.00	4,930.00	5,197.00	5,478.00
EOS Market Share	0.56%	0.90%	1.14%	1.19%	1.24%	1.27%
Revenue	22.85	39.78	53.30	58.67	64.44	69.57
Total Revenue	164.48	244.32	306.53	369.73	447.58	539.55

Our DCF applies a terminal growth rate of 3.0% and a WACC of 10.23%, reflecting current capital markets conditions, updated risk inputs, and a 3.85% risk-free rate.

We assume a blended capital structure, in line with EOS's current balance sheet (A\$184 million cash). The company is expected to maintain a net cash position over our forecast horizon. We apply a 10% cost of equity and a 9% cost of debt (pre-tax), with a corporate tax rate of 30%.

Table 2: Updated Valuation

EOS Valuation (A\$M)		WACC	
Terminal Growth Rate	3%	Beta	1.11
Discount Rate	10.23%	Rf	3.85%
Terminal Value (TV)	999.69	Re	10%
Present Value of TV	557.27	Rd	9%
Enterprise Value	477.60	E	549.91
Net Debt	-162.43	D	62.19
Equity Value	640.03	1-T	70%
Fully Diluted Shares	175.41		
Implied (Target) Price	\$3.6488	WACC	10.23%

Our model is most sensitive to terminal growth and the discount rate. The following matrix illustrates the implied fair value per share under varying assumptions:

Table 3: Sensitivity Analysis

	WACC							
	3.65	8.5%	9.0%	9.5%	10.2%	10.5%	11.0%	11.5%
Terminal Growth	1.5%	4.05	3.72	3.43	3.06	2.95	2.75	2.57
	2.0%	4.34	3.96	3.64	3.24	3.11	2.89	2.69
	2.5%	4.68	4.25	3.88	3.43	3.28	3.04	2.83
	3.0%	5.09	4.58	4.16	3.65	3.49	3.22	2.98
	3.5%	5.57	4.98	4.48	3.90	3.72	3.41	3.15
	4.0%	6.16	5.45	4.87	4.19	3.98	3.64	3.34
	4.5%	6.90	6.03	5.33	4.54	4.30	3.90	3.57

At our assumptions (WACC: 10.23%, TG: 3.0%), the model supports an equity valuation of A\$640 million, or A\$3.65 per share. A shift to a 9.5% WACC and/or 3.5% terminal growth would imply a valuation range of A\$4.16–A\$4.48 per share.

EOS's valuation is now underpinned by:

- A reset balance sheet and materially reduced execution risk
- Higher backlog visibility and opportunity conversion from CY26
- A structurally supportive defence and space investment cycle
- Margin expansion potential through scale and product mix shift

We consider the current share price to undervalue EOS's strategic positioning and platform optionality. Execution of current backlog, conversion of late-stage opportunities in DEW and SSA, and realisation of operating leverage from CY26 onwards could support a re-rating over the medium term.

Updated Key risks

Operational Execution and Fulfilment

The finalisation of a major Middle Eastern contract (with ~\$60m cash inflow) and increased backlog execution (now \$170m) indicate improved operational delivery. Execution risk has eased but remains relevant as EOS scales production across multiple regions.

Conditional Contract Dependence

While A\$181m in conditional contracts remain, recent progress on legacy contracts lowers near-term dependency. Conversion timing still matters—particularly for Ukraine-linked CUAS orders, but immediate cash flow reliance has decreased.

Technology Adoption (HELW)

HELW is advancing toward commercialisation, with two contracts under negotiation (A\$100–200m potential). The risk has shifted from tech validation to contract timing and integration readiness.

Liquidity and Capital

EOS is now debt-free with over A\$130m unrestricted cash and additional inflow expected. The previous liquidity concern has eased materially; risk now lies more in managing concurrent program ramp-ups rather than funding runway.

Appendix

Financial Statements

Income Statement

A\$'000s	CY24a	CY25e	CY26e	CY27e	CY28e
Revenue	258.70	164.48	244.32	306.53	369.73
Cost of sales	-130.31	-90.46	-122.16	-156.33	-184.87
Gross Profit	128.39	74.01	122.16	150.20	184.87
Other Income	2.75	-	-	-	-
Foreign Exchange	12.04	-	-	-	-
Expenses	-118.16	-95.00	-96.90	-101.75	-112.94
EBITDA	12.98	-20.99	25.26	48.45	71.93
D&A	-15.32	-10.31	-8.81	-7.87	-12.89
EBIT	-2.35	-31.30	16.46	40.59	59.04
Finance Costs	-24.81	-2.00	-2.00	-2.00	-1.00
NPBT	-27.15	-33.30	14.46	38.59	58.04
Tax expense	-4.57	-	-	-	-
Underlying NPAT	-31.72	-33.30	14.46	38.59	58.04
Reported NPAT	-19.69	-33.30	14.46	38.59	58.04

Balance Sheet

A\$'000s	CY24a	CY25e	CY26e	CY27e	CY28e
Cash	41.08	34.32	20.89	33.67	54.47
Trade and Receivables	17.73	16.45	24.43	39.85	48.07
Security deposits	12.75	11.68	20.79	27.42	33.91
Contract asset	57.38	36.18	53.75	67.44	81.34
Other	175.97	140.78	143.59	152.21	156.78
Current assets	304.91	239.40	263.46	320.59	374.57
Contract asset	-	11.68	24.43	30.65	29.58
Security deposits	36.73	27.20	30.61	32.51	34.34
Right of use assets	15.02	15.72	12.26	9.56	7.46
Receivables	-	8.18	17.10	18.39	14.79
PPE	13.05	9.13	9.13	10.53	12.63
Intangible assets and Other	31.31	22.33	18.61	14.67	45.80
Non-current assets	96.11	94.24	112.15	116.33	144.60
Total assets	401.01	333.64	375.60	436.91	519.17
Trade and other payables	28.21	42.75	51.36	52.91	58.73
Contract liabilities	24.13	14.80	24.92	30.65	36.97
Provisions	19.04	18.08	17.18	16.32	15.50
Borrowings	35.40	-	-	-	50.48
Other	35.40	39.64	39.68	47.62	50.48
Current liabilities	154.71	115.28	133.14	147.50	161.68
Borrowings	-	-	-	-	-
Other liability	26.79	32.15	41.80	50.16	60.19
Non-current liabilities	26.79	32.15	41.80	50.16	60.19
Total Liabilities	181.51	147.43	174.94	197.66	221.87
Net Assets	219.51	186.21	200.67	239.25	297.29
Contributed Equity	467.19	467.19	467.19	467.19	467.19
Accumulated Losses	-260.51	-293.80	-279.35	-240.76	-182.72
Reserves and Non-controlling int.	12.82	12.82	12.82	12.82	12.82
Total equity	219.51	186.21	200.67	239.25	297.29

Statement of Cashflows

A\$'000s	CY24a	CY25e	CY26e	CY27e	CY28e
Net profit for period	-31.72	-33.30	14.46	38.59	58.04
Depreciation & Amortisation	15.32	10.31	8.81	7.87	12.89
Changes in working capital	76.19	-19.31	19.62	29.99	18.99
Other	-83.99	-67.19	-67.26	-68.60	-72.03
Operating cash flow	-24.19	-109.49	-24.37	7.84	17.89
Payments for PPE	-6.17	-	-	-2.00	-3.00
Payments for Intangibles and other assets	-5.38	-	-	-	-
Change in security deposit	15.24	-10.60	12.53	8.54	8.31
Other	0	158.60	0	0	0
Investing cash flow	3.68	148.00	12.53	6.54	5.31
Equity Raised	36.92	-	-	-	-
Transaction costs	-1.97	-	-	-	-
Lease liability payments	-	-	-	-	-
Borrowings	-20.51	-61.10	-	-	-
Other	-5.23	-1.57	-1.58	-1.60	-2.40
Financing cash flow	9.21	-62.67	-1.58	-1.60	-2.40
Free cash flow	-20.52	38.51	-11.84	14.38	23.20
Cash flows	-11.31	-24.16	-13.43	12.78	20.80
Effects of exchange rate	-1.22	-	-	-	-
Cash year end	58.48	34.32	20.89	33.67	54.47

Investment Fundamentals

	CY24a	CY25e	CY26e	CY27e	CY28e
Liquidity					
Quick Ratio	1.7	1.8	1.8	1.9	2.0
Solvency					
Debt to Equity	0.2	0.0	0.0	0.0	0.2
Debt to Assets	0.1	0.0	0.0	0.0	0.1
LT Debt to Assets	0.0	0.0	0.0	0.0	0.0
Profitability					
Net Margin	n/a	n/a	6%	13%	16%
ROA	n/a	-9%	4%	9%	12%
ROE	n/a	-16%	7%	18%	22%
Valuation					
P/E	n/a	n/a	n/a	n/a	n/a
EV/EBITDA	n/a	n/a	n/a	n/a	n/a
P/B	2.5	2.73	2.53	2.15	1.73
Growth					
Gross Margin	50%	45%	50%	49%	50%
NPAT Margin	-8%	-20%	6%	13%	16%
EBITDA Margin	5%	-13%	10%	16%	19%
Weighted Avg Shares Outstanding	175.41	175.41	175.41	175.41	175.41



Leadership Team

Dr. Andreas Schwer Group CEO/MD	Dr. Andreas Schwer brings more than 25 years of international leadership experience in defence and aerospace. He was appointed Group CEO in August 2022 and Managing Director in December 2023. Prior to joining EOS, he held executive roles at Airbus, Rheinmetall, and served as President of EOS EMEA, leading its expansion across NATO and the Middle East. Dr. Schwer holds a PhD in Systems Engineering and is recognised for his expertise in international defence markets, industrial transformation, and sovereign capability development.
Clive Cuthell CFO & COO	Clive Cuthell joined EOS in September 2022 and serves as both CFO and COO. He brings over 25 years of executive finance and operational leadership, having led the company's capital restructuring, including the divestment of EM Solutions and a successful capital raise in CY24. His focus has been on restoring financial stability, optimising supply chains, and building execution resilience. Prior to EOS, he held senior roles in industrial tech firms across public and private sectors.
Christian Tobergte EVP – International Defence Systems	Christian Tobergte leads EOS's international defence business, overseeing sales, capture, and program delivery across Europe, the Middle East, and Asia. With more than two decades of experience in defence exports—particularly with MBDA—he is driving EOS's growth in NATO-aligned markets and advancing demonstration-driven campaigns for CUAS, RWS, and HELW systems.
Ian Cook EVP – Australian Defence Systems	Ian Cook oversees all defence programs within Australia, including delivery to the ADF and sovereign industry support. He plays a central role in national execution, program coordination, and capability sustainment. His background includes over 15 years in defence program management and operational leadership, with expertise in land systems and customer delivery.
James Bennett EVP – Space Systems	James Bennett leads EOS's space division, which includes observatory infrastructure, space domain awareness software, and tracking solutions. He has a strong background in aerospace systems engineering, government program leadership, and commercial space services. Under his guidance, EOS has expanded its role in sovereign SDA and strategic partnerships across allied space markets.
Garry Hounsell NEC	Garry Hounsell is an experienced ASX chairman and former CEO with extensive board leadership across major public companies. He has held chair and directorships at Treasury Wine Estates, Helloworld, DuluxGroup, and ANZ. A Chartered Accountant by background, Mr. Hounsell brings high-level financial governance, stakeholder engagement, and M&A experience to the board during a crucial stage of commercial scale-up and market repositioning.
Air Marshal (Ret.) Geoff Brown AO NED	Air Marshal Geoff Brown is a former Chief of Air Force (RAAF) and one of Australia's most senior military leaders. He provides strategic oversight on operational defence priorities, joint force integration, and sovereign capability planning. He also sits on multiple defence-related boards and is a trusted voice across government and national security stakeholders.
The Hon. Kate Lundy NED	Kate Lundy is a former Australian Senator and government minister with deep experience in public policy, digital transformation, and industry development. She serves on several public and private sector boards and provides critical governance and regulatory expertise to EOS. Her insight supports the company's alignment with national interests and ethical technology frameworks.

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