



## INITIATION OF COVERAGE

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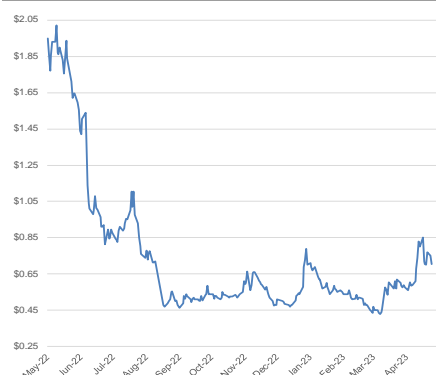
### Market Statistics in AUD

Price	\$ 0.87
52 week Range	\$0.42 - \$2.03
Daily Vol (3-mo. average)	668,290
Market Cap (M):	\$ 148.1
Enterprise Value (M):	\$ 220.4
Shares Outstanding: (M)	171.2
Float (M)	123.2
Public Ownership	64.8%
Institutional Ownership	2.1%

### Financial Summary in AUD

Cash (AUD \$M)	\$ 21.7
Cash/Share	\$ 0.13
Debt (\$M)	\$ 97.2
Equity (\$M)	\$ 233.1
Equity/Share	\$ 1.38

FYE: Dec	2022	2023E	2024E
(in AUD\$ M)			
Rev	\$ 223.1	\$ 183.0	\$ 217.9
Chng%	-32%	20%	19%
EBITDA	\$ (27.1)	\$ (1.1)	\$ 20.6
Net Income	\$ (53.6)	\$ (17.6)	\$ 6.9
EPS	\$ (0.78)	\$ (0.12)	\$ 0.05
EV/Revenue	1.0x	1.2x	1.0x
EV/EBITDA	-8.1x	N/A	10.7x
P/E	-1.1x	-7.3x	18.8x



## COMPANY DESCRIPTION

Electro Optic Systems Holdings Limited is a global aerospace & defense and communications company with operations in Australia, United States, Middle East, Asia, and Europe. EOS develops, manufactures, and sells remote weapons systems, counter-drone weapons systems, naval satellite communication systems and space domain awareness services. The Company operates across three segments: Defense Systems, EM Solutions, and Space Systems. EOS is currently headquartered in Canberra, Australia with regional offices in the United States, the United Arab Emirates, Singapore, the Netherlands, and Germany.

## ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED (ASX: EOS)

### COMPANY UPDATES

**Revamped Management:** In 2H22, EOS appointed Gary Hounsell (Chair), Andreas Schwer (CEO), and Clive Cuthell (CFO) to guide the company's turnaround efforts. They bring in decades of experience and are focused on cutting costs and improving cashflow so EOS can reach its full potential with a profitable and sustainable future. Their goal is to improve the trust customers and investors have in the Company by giving honest and down-to-earth expectations of the company's performance. In a sense, they aim to under promise and overperform going forward.

**Turnaround Program:** Management has implemented a disciplined multiphase restructuring plan to turn EOS around. The now completed phase 1 focused on cutting costs and acquiring additional funding. A significant action taken in phase one was ending the overinvested SpaceLink venture that was needlessly burning cash. Phase 2 is underway and is focused on collecting cash from existing customers and securing new orders. The turnaround is the Company's new approach of giving honest expectations and clearly displaying their goals to repair its credibility and drive growth.

**Accelerated Market Growth:** Global defense spending is at an all-time high, eclipsing USD\$2 trillion for the first time with this trend is expected to continue in 2023 and 2024. The war in Ukraine and growing tensions in Asia have motivated countries to bolster their militaries. Ukraine's military spending was USD\$44 billion in 2022, increasing 640% over 2021. This presents EOS with an abundance of defense contract opportunities it plans to capitalize on.

**Strong Backlog:** As of December 31, 2022, the Company has a strong order backlog of future contracted work totaling US\$250 million which includes the US\$80 million contract to supply Ukraine. The backlog makes up customer contracts primarily in the Defense and EM Solutions segments and work is expected to be done in 2023 into 2024. Collecting cash flows from these contracts is vital to continue to build up its operations and improve manufacturing capacity.

**Terminated SpaceLink:** In 4Q22, EOS exited the SpaceLink venture and thus ended the ensuing cash outflows. From this, the Company freed up \$26.6 million that was being drained by the venture. SpaceLink was considered too capital and time intensive to effectively commercialize and management felt it was better to redeploy that capital more efficiently. This was an initial phase of the Company's restructuring program and has freed up capital to find better use in other parts of the business that could bring sustainable growth.

**Valuation:** We use both a DCF Analysis and Comparable Analysis to inform our valuation of EOS. Using a discount rate range of 10.25% to 10.75% we arrive at a valuation range of A\$0.83 to A\$1.15 with a midpoint of A\$0.92. For the Comparable Analysis we selected an EV/EBITDA range of 11.0x to 12.0x to inform a valuation range of A\$0.88 to A\$1.00 with a midpoint of A\$0.94.

## Business Overview

Electro Optic Systems Holdings Limited (“EOS,” “the Group”, or “the Company”) is a global aerospace & defense and communications company with operations in Australia, United States, Middle East, Asia, and Europe. EOS develops, manufactures, and sells remote weapons systems, counter-drone weapons systems, naval satellite communication systems and space domain awareness services. The company is also developing further products, including high energy laser weapons. The Company operates across three segments: Defense Systems, EM Solutions, and Space Systems. EOS is currently headquartered in Canberra, Australia with regional offices in the United States, the United Arab Emirates, Singapore, the Netherlands, and Germany.

## Company History

The Company was originally founded in 1983 from the privatization of Australia’s government space activity. In the late 1990’s and early 2000’s, EOS began expanding globally and now serves markets in Australia, the United States, Europe, the Middle East and Southeast Asia. To date, the company’s flagship product (the RWS 400) is well established and has sold over 2,500 units over fifteen years, working with more than ten different nations. The Group has grown to become the largest defense exporter in the Southern Hemisphere, with exports accounting for ~90% of revenue. In 2000 the group was officially listed on the Australian Securities Exchange under the symbol “EOS.”

### Exhibit 1: Operating Areas



Source: Company Presentation

## Business Segments

Electro Optics operates in three core segments: Defense Systems, EM Solutions, and Space Systems. The Company’s revenues are significantly dependent on governments ramping up their defense budgets, which could lead to major defense and space contract wins for EOS. Over the last two decades, countries have been steadily increasing their defense budgets to bolster their military strength and national security. Countries like the U.S. have started to increase investments in their remote weapon systems and unmanned vehicles capabilities, two core areas of EOS’s Defense business. For instance, counter-drone technologies are increasingly in demand and recent conflicts have demonstrated that traditional kinetic weapons have advantages as a cost effective and

sustainable counter-drone measure. Additionally, space warfare is becoming more of a focal point as governments adjust their defense budgets, exemplified by the U.S. and China establishing their own independent space branches of their militaries. This could prove to be catalyst if other countries follow suit.

## Exhibit 2: Business Segments

Defence Systems	EM Solutions	Space Systems
<ul style="list-style-type: none"> <li>Remote Weapons System (RWS) manufacturer – pioneered product development over 30 years</li> <li>Key product (R400 RWS) is well established and recognised for accuracy and range</li> <li>Widening product range to include R150 (launched) and R800 in future</li> <li>Recent launch of RWS Counter-Drone Systems</li> <li>Directed Energy products in development</li> <li>Recent Revenue A\$105 -185m</li> </ul>	<ul style="list-style-type: none"> <li>Leading naval satcom terminal manufacturer</li> <li>Acquired 2019</li> <li>Provides global satellite communications systems &amp; services to primarily navy / maritime customers</li> <li>Strong position in Australia, growing in Europe</li> <li>Recent Revenue ~A\$30m</li> </ul>	<ul style="list-style-type: none"> <li>Space laser tracking &amp; identification services</li> <li>World leader in technology – using laser accuracy to track objects in space</li> <li>Directed Energy / Space Warfare capability in development</li> <li>Future growth opportunity</li> <li>Recent Revenue A\$4m</li> </ul>

Source: Company Presentation

## EOS Defense Systems

The EOS Defense Systems segment develops remote weapons systems (“RWS”) and weapon systems for unmanned ground vehicles (“UGVs”) as well as counter-drone applications. This segment accounts for AUD\$100-200 million of the Company’s revenue. EOS is intent on capitalizing on future commercial growth by maximizing prospects provided by third part development funding and making commercialization a core focus in the immediate future.

RWS production is responsible for the Company’s largest contract, which is supplying the UAE with 200 units worth US\$300 million into 2024. EOS recently secured two conditional contracts totaling A\$181 million to supply Ukraine with RWS. EOS has also won a few smaller contracts in Ukraine, involving the L3Harris VAMPIRE program, with additional wins in Southeast Asia and NATO

The Company sees its counter-drone applications as an opportunity for outsized growth. In 2023 EOS launched its newest counter-drone product named “Slinger”. The Slinger product will be available for both the domestic Australian market as well as international markets to address current and emerging threats that are informed by the Ukraine conflict. The product is equipped with a radar and 30mm cannon that incorporates specialized ammunition with EOS’ proprietary technology for effective counter-drone operations.

UGVs are also a major growth area for EOS. Recent technological advancements have increased UGVs’ accuracy and reliability, making them attractive to customers. Over the last two decades militaries have shifted their battlefield tactics by using drones and UGVs. The use of UGVs has become a top priority for international defense programs wishing to reduce casualties while increasing lethality. EOS provides remote lethality to the U.S., Thailand, the Netherlands, and Australia.

Additionally, EOS is developing a prototype directed energy weapon, a high energy laser (HEL), that management expects to bring growth potential. It functions somewhat comparable to the laser from James Bond’s Goldfinger. While there is still work to be done before the prototype will reach commercialization, there has been excitement surrounding it. As the Company has previously demonstrated a 36kW HEL, the Company is now in the process of finding a strategic partner to aid in funding and development. This new technology could provide a catalyst to significantly drive revenues.

## EOS Space Systems

EOS's Space Segment is an industry leader that specializes in space surveillance and intelligence services, space control and warfare capabilities, and optical and satellite communications products. In the space, this segment has produced inconsistent and unreliable results for EOS. However, management has a commitment to only invest in activities that have true potential to produce meaningful returns in the future. By focusing its efforts on bolstering its operating efficiency to build superior products, EOS can capitalize on a rapidly growing market with governments actively working to build their space capabilities.

In March 2023, the White House proposed a USD\$30 billion budget for the U.S. Space Force, increasing by USD\$4 billion over 2022. This exhibits the U.S. commitment to build up and maintain the Space Force in the face of impending threats from China and Russia. As other countries follow suit and build their space warfare capacities, EOS could be presented as a significant opportunity to garner extensive contract wins.

## EM Solutions

While EM Solutions is a branch of Space Solutions segment, we felt it was a significant portion of the business to discuss separately. The EM Solutions segment is a world leader in the development and deployment of satellite communication (SATCOM) systems for Naval defense forces and maritime customers. The segment accounts for A\$30 million of the company's revenue and is growing EBITDA by ~20% per year. Its key products are the Cobra and next generation King Cobra systems that are in use by allied forces in Europe and the Middle East. This represents a significant opportunity for future growth for EOS, as previously the EM Solutions segment focused on the Australian market but is now expanding to European markets.

Management expects this segment to show healthy growth as it has a strong order book going into 2024. During 3Q22, EOS signed a A\$26m 3-year contract with Royal Australian Navy for the sustainment of its fleet of Cobra Maritime SATCOM terminals. Steadily securing contracts with domestic and international customers is essential to maintaining its current growth trajectory in the medium term.

## Turnaround Strategy

EOS has implemented a turnaround strategy to scale the company's revenue and reach profitability. This began with the appointments of new CEO Andreas Schwer, CFO Clive Cuthell, and Chair Garry Hounsell. Historically, the Company was known to severely overpromise on their expectations only to completely underdeliver, losing credibility and investor trust in the process. New management adopted an opposite approach by giving honest expectations and clearly displaying their goals by initiating a multiphase turnaround program.

The now completed phase 1 concentrated on restructuring the business. When EOS's new management was appointed, its immediate goals were to cut unnecessary costs and seek additional funding, seen by the termination of the cash burning SpaceLink venture and the borrowing facilities set up in October 2022. This was swift and effective as EOS has ended AUD\$26m per year of cash outflows from SpaceLink and AUD\$25m from roles that were redundant. The Company also fully drew its A\$70m principal loan to push operations forward.

Phase 2 is currently underway and is focused on collecting cash from customers and securing new orders. Thus far the Company has made true on the plan, by renegotiating contracts and building up

a backlog of US\$250m. In the short term, cashflows were down in 2022 due to delays in cash collections, lower customer activity levels, and costs associated with restructuring the business. However, the Company is now in a solid position to drive its cash performance in 2023 and 2024. If EOS sticks to its turnaround strategy, its reputation should improve, allowing the business to grow. Most recently we note that the Company has generated a positive cash flow of A\$25m in 1Q23. Additionally, EOS saw an inflow of A\$61m in receivables during the same quarter. This was in combination with the staff costs totaling A\$9m, which is down from A\$15m in 1Q22. We view this as proof that the Company is taking the necessary steps to execute on its turnaround.

### Exhibit 3: Turnaround Strategy



Source: Company Presentation

## Financing

In the fall of 2022, EOS set up new borrowing facilities with equity investor Washington H. Soul Pattinson ("WHSP"), containing terms that interest can be capitalized in 12 months. The Company receives A\$70 million principle and the total amount required to be repaid is A\$127m. At December 31, 2022, the facilities were fully drawn, despite having A\$21.7m in cash to continue funding operations. Due to the challenging circumstances the Company was facing when they took this loan, leading to the high rates seen in exhibit 4, it is expected that EOS will prioritize debt repayments as their cash flow improves over the coming 18 months.

We expect the funding for this debt repayment to come from the A\$164m of working capital contract assets outstanding. These receivables are due from customers in the middle east and are expected to be realized over time. The current contract amendment secured by management makes us increasingly confident that these receivables will be realized.

### Exhibit 4: Funding

A\$m	Principal	Term	Maturity	Total Rate	Repayment
<b>Working Capital Facility</b>	20.0	12m	6 Sep 23	19%	26.9
<b>Working Capital Facility</b>	15.0	18m	11 Apr 24	19%	20.5
<b>Term Loan facility</b>	35.0	36m	11 Oct 25	26%	52.1
<b>Total</b>	<b>70.0</b>				<b>99.5</b>

Source: Company Presentation

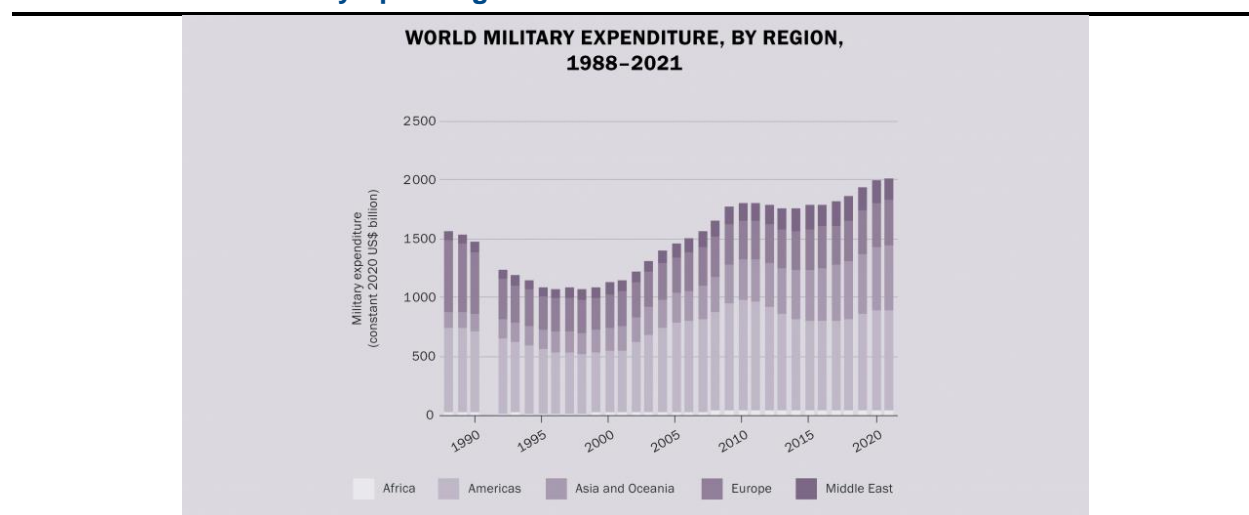


## Market Overview

Global military spending has steadily increased over the last three decades. Despite a high inflationary environment, governments have actively increased their military budgets, largely due to the war in Ukraine as well as rising tensions in Asia. In fact, global military spending reached all-time high in 2022, surpassing \$2 trillion for the first time in history and the number is increasing. Ukraine's military spending was \$44 billion in 2022, increasing 640% over 2021. With the War in Ukraine and tensions in Asia and the Middle East showing no sign of resolving soon, this rapid growth in spending is expected to persist.

EOS has experienced the effects of the spending surge with active contracts and contract negotiations to supply Ukraine and supporting countries with RWS's. In January 2023, the defense systems secured a contract in the U.S. for use in L3Harris Vampire program supporting Ukraine. In April 2023, the Company entered conditional contracts with Ukraine valued at AUD\$181m to supply RWS, including ammunition, spares, and related services. Consistent contract wins like this are key for the Company's future, especially as defense spending continues to reach all time highs.

### Exhibit 5: Global Military Spending 1998-2021



Source: Stockholm International Peace Research Institute (SIPRI)

## Risks

As with any investment, there are certain risks associated with EOS's operations as well as with the surrounding economic and regulatory environments common to the Aerospace & Defense industry and operating in foreign countries.

**Highly Competitive Industry** – The Aerospace & Defense industry is highly competitive with several large players. Should EOS fail to attract more customers or lose current customers to other companies, the business could suffer. Additionally, should countries begin to reduce their budgets and reduce their demand for defense solutions, competition will rise and EOS's market will decrease.

**Geopolitical Change** – EOS operates in an industry that is subject to high geopolitical risk. Should governments reduce their military budgets, EOS's becomes more at risk of a reduction in its revenues. Additionally, some of the markets that the Company operates in are exposed to political and economic instability, which could bring negative pressures on operations.

**Customer Concentration** – The Company's activities are currently concentrated with two customers in two markets with a backlog of over AUD\$300m. A delay in cash receipts puts downward pressure on the business. Failure to secure future sales contracts and diversify its customers base could hurt the Company's ability to continue operations.

**Regulatory Changes** – The Company is exposed to regulatory changes. The risks of regulations include export licenses, security obligations, and compliance with countries' securities legislation. This subjects EOS to potential legal disputes, investigations, and sanctions from investors, governments, and customers amongst others. Any sort of legal action taken on the Company could have negative ramifications on operations.

## VALUATION SUMMARY

We use a DCF Analysis and a Comparison Analysis to frame valuation.

### DCF Analysis

We are modeling near-term revenue growth rates driven by continued contract wins around the globe. Our longer-term revenue growth normalizes around 5%.

For our sensitivity analysis, we used a range of discount rates from 10.00% to 11.00% and terminal growth rates between 0% and 4%. We selected this discount rate to account for EOS's smaller market cap and the recent rising interest rate environment. This results in a valuation range of A\$0.83 to A\$1.15, with a mid-point of A\$0.97.

### Sensitivity Analysis:

		Terminal Growth Rates				
		0.0%	1.0%	2.0%	3.0%	4.0%
Discount rate	10.00%	\$0.89	\$0.97	\$1.08	\$1.22	\$1.40
	10.25%	\$0.85	\$0.93	\$1.02	\$1.15	\$1.32
	10.50%	\$0.80	\$0.88	\$0.97	\$1.08	\$1.24
	10.75%	\$0.77	\$0.83	\$0.92	\$1.02	\$1.16
	11.00%	\$0.73	\$0.79	\$0.87	\$0.97	\$1.09

### Comparison Analysis

Company Name	Symbol	Price <sup>(1)</sup>	Mrkt Cap (M)	EV (M)	EV/Revenue <sup>(2,3)</sup>			EV/EBITDA <sup>(2,3)</sup>			P/E <sup>(2,3)</sup>		
					2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E
Aerojet Rocketdyne Holdings, Inc.	AJRD	\$ 55.23	\$ 4,449.3	\$ 4,509.8	2.02x	1.88x	1.82x	17.1x	15.3x	14.0x	0.7x	0.3x	0.3x
Ducommun Incorporated	DCO	\$ 42.25	\$ 614.5	\$ 881.3	1.24x	1.15x	1.07x	9.3x	8.6x	7.5x	1.5x	N/A	N/A
HEICO Corporation	HEI	\$ 178.94	\$ 21,511.4	\$ 22,536.9	10.21x	8.27x	7.71x	38.6x	31.3x	28.5x	0.5x	0.4x	0.4x
Kratos Defense & Security Solutions, Inc.	KTOS	\$ 14.07	\$ 1,795.4	\$ 2,113.7	2.35x	2.13x	1.94x	28.9x	24.1x	20.0x	-0.4x	0.3x	0.2x
L3Harris Technologies, Inc.	LHX	\$ 186.20	\$ 35,276.2	\$ 45,547.2	2.67x	2.55x	2.44x	14.0x	13.2x	12.3x	0.2x	0.1x	0.1x
Terran Orbital Corporation	LLAP	\$ 1.67	\$ 242.2	\$ 362.7	3.85x	1.47x	0.74x	-6.4x	-6.9x	10.7x	0.0x	0.0x	-0.1x
Lockheed Martin Corporation	LMT	\$ 454.72	\$ 115,159.0	\$ 128,319.0	1.94x	1.95x	1.89x	13.3x	13.0x	12.6x	0.1x	0.1x	0.1x
MDA Ltd.	MDA	\$ 6.02	\$ 715.3	\$ 868.7	1.83x	1.50x	1.28x	8.6x	7.7x	6.4x	0.3x	0.1x	0.1x
Moog Inc.	MOG.A	\$ 99.87	\$ 3,184.6	\$ 4,144.0	1.37x	1.30x	1.23x	11.2x	10.0x	9.4x	0.6x	0.4x	0.3x
Northrop Grumman Corporation	NOC	\$ 443.07	\$ 67,284.4	\$ 80,644.4	2.20x	2.10x	1.99x	16.6x	15.1x	14.0x	0.1x	0.1x	0.1x
Raytheon Technologies Corporation	RTX	\$ 95.66	\$ 139,482.6	\$ 171,289.6	2.55x	2.36x	2.18x	14.2x	13.2x	12.1x	0.0x	0.0x	0.0x
Spirit AeroSystems Holdings, Inc.	SPR	\$ 26.58	\$ 2,796.6	\$ 6,195.7	1.23x	1.00x	0.83x	24.1x	14.9x	7.3x	0.0x	-0.1x	0.2x
Average					2.8x	2.3x	2.1x	15.8x	13.3x	12.9x	0.3x	0.2x	0.2x
Median					2.1x	1.9x	1.9x	14.1x	13.2x	12.2x	0.1x	0.1x	0.1x
Electro Optic Systems Holdings Limite	ASX: E	\$ 0.57	\$ 98.4	\$ 146.4	1.0x	1.2x	1.0x	-8.1x	N/A	10.7x	-1.1x	-7.3x	18.8x

(1) Previous day's closing price

(2) Estimates are from Capital IQ

(3) Forward estimates as of calendar year

(4) All Values in USD at an exchange rate of \$1.50 AUD/USD

Source: Company reports, CapitalIQ, Stonegate Capital Partners

We use an EV/EBITDA multiples comparison to determine a valuation range for EOS. Given the current turnaround story and large backlog of receivables, coupled with the potential for continued growth due to the favorable market outlook, we feel comfortable looking through the short-term headwinds into 2024 where we believe the Company will start to generate positive EBITDA. This allows us to value EOS as compared to the above peer companies that are trading at an average of 12.9x of estimated EV/EBITDA in 2024. This is compared to EOS that is trading at 10.7x based on our estimates.

	EV/EBITDA		
<b>2024 E</b>	<b>11.00x</b>	<b>11.50x</b>	<b>12.00x</b>
Adj EBITDA	20.6	20.6	20.6
TEV	226.8	237.1	247.4
Cash	21.7	21.7	21.7
Debt	97.2	97.2	97.2
Mrkt Cap	151.3	161.6	171.9
S/O	171.2	171.2	171.2
<b>Price</b>	<b>\$ 0.88</b>	<b>\$ 0.94</b>	<b>\$ 1.00</b>

After applying a slight size discount, we still believe that EOS should be trading at a 2024 EV/EBITDA range of 11.0x to 12.0x. This informs a valuation range of A\$0.88 to A\$1.00 with a midpoint of A\$0.94.



## DISCOUNTED CASH FLOW

Electro Optic Systems Holdings Limited														
Discounted Cash Flow Model														
(in AUD\$M, except per share)														
Estimates:	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	Terminal Value
Revenue	223.1	152.4	183.0	217.9	237.5	255.4	273.2	291.0	309.9	328.5	348.2	365.6	383.9	
Opearting Income	22.6	(48.6)	(15.3)	6.3	8.3	11.5	15.6	17.5	21.7	27.9	29.6	32.9	38.4	
Less: Taxes (benefit)	(9.2)	9.3	(2.3)	0.6	2.1	2.9	3.9	4.4	5.4	7.0	7.4	8.2	9.6	
NOPAT	31.8	(57.9)	(13.0)	5.6	6.2	8.6	11.7	13.1	16.3	20.9	22.2	24.7	28.8	
Plus: D&A	10.1	11.1	11.3	11.5	11.9	12.5	12.3	12.5	12.7	14.1	14.3	14.6	15.4	
Plus: Changes in WC	47.9	31.1	9.2	5.4	2.4	-	(1.4)	(1.5)	(1.5)	(1.6)	(1.7)	(1.8)	(1.9)	
Less: Capex	(29.0)	(19.7)	(12.8)	(8.7)	(5.9)	(5.1)	(4.9)	(4.7)	(7.1)	(7.4)	(7.3)	(7.7)	(8.1)	
Free Cash Flow	60.8	(35.4)	(5.4)	13.9	14.5	16.0	17.7	19.5	20.3	26.0	27.4	29.8	34.2	410.0
Discount period - months			12	24	36	48	60	72	84	96	108	120	132	
Discount period - years			1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	
Discount factor			0.90	0.82	0.74	0.67	0.61	0.55	0.50	0.45	0.41	0.37	0.33	
PV of FCF			(4.9)	11.4	10.8	10.7	10.7	10.7	10.1	11.7	11.2	11.0	11.4	136.7
Growth rate assumptions:														
Revenue		-31.7%	20.1%	19.1%	9.0%	7.5%	7.0%	6.5%	6.5%	6.0%	6.0%	5.0%	5.0%	
Operating Income		-315.4%	-68.5%	-140.9%	32.6%	38.2%	35.5%	12.1%	24.3%	28.7%	6.0%	11.2%	16.7%	
EBITDA		-215.2%	-89.2%	-536.0%	13.6%	18.9%	16.1%	7.5%	14.8%	22.2%	4.3%	8.3%	13.1%	
Free Cash Flow		-158.3%	-84.6%	-355.2%	4.9%	10.1%	10.4%	10.2%	4.1%	28.3%	5.3%	8.7%	14.7%	
Margin assumptions:														
Operating Income	10.1%	-31.9%	-8.4%	2.9%	3.5%	4.5%	5.7%	6.0%	7.0%	8.5%	8.5%	9.0%	10.0%	
D&A as a % of sales	4.5%	7.3%	6.1%	5.3%	5.0%	4.9%	4.5%	4.3%	4.1%	4.3%	4.1%	4.0%	4.0%	
EBITDA	14.6%	-24.6%	-2.2%	8.2%	8.5%	9.4%	10.2%	10.3%	11.1%	12.8%	12.6%	13.0%	14.0%	
Taxes	-40.9%	-19.1%	15.0%	10.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
Changes in WC	21.5%	20.4%	5.0%	2.5%	1.0%	0.0%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	
Capex as a % of sales	-13.0%	-12.9%	-7.0%	-4.0%	-2.5%	-2.0%	-1.8%	-1.6%	-2.3%	-2.3%	-2.1%	-2.1%	-2.1%	
Valuation:														
Shares outstanding	171.2													
PV of FCF	104.8													
PV of Terminal Value	136.7													
Enterprise Value	241.5													
less: Net Debt	75.5													
Estimated Total Value:	166.0													
Est Equity Value/share:	\$0.97													
Sensitivity Analysis:														
Discount rate		Terminal Growth Rates												
		0.0%	1.0%	2.0%	3.0%	4.0%								
	10.00%	\$0.89	\$0.97	\$1.08	\$1.22	\$1.40								
	10.25%	\$0.85	\$0.93	\$1.02	\$1.15	\$1.32								
	10.50%	\$0.80	\$0.88	\$0.97	\$1.08	\$1.24								
	10.75%	\$0.77	\$0.83	\$0.92	\$1.02	\$1.16								
11.00%	\$0.73	\$0.79	\$0.87	\$0.97	\$1.09									
Price	\$0.87													

Source: Company Reports; Stonegate Capital Markets

## BALANCE SHEET

Electro Optic Systems Holdings Limited  
Consolidated Balance Sheets (AUD\$ M)  
Fiscal Year End: December

ASSETS	FY 2019	Q2 Jun-20	Q4 Dec-20	FY 2020	Q2 Jun-21	Q4 Dec-21	FY 2021	Q2 Jun-22	Q4 Dec-22	FY 2022
Cash and cash equivalents	77.9	128.1	65.9	65.9	51.1	59.3	59.3	13.8	21.7	21.7
Trade and other receivables	27.1	17.7	35.8	35.8	17.6	23.5	23.5	10.6	7.4	7.4
Tax Receivable	-	1.9	-	-	-	0.2	0.2	0.8	12.2	12.2
Contract assets	44.2	94.8	124.5	124.5	120.4	106.8	106.8	109.0	127.9	127.9
Inventories	53.5	76.2	67.3	67.3	68.9	74.6	74.6	83.2	74.8	74.8
Prepayments	-	-	-	-	-	20.4	20.4	-	17.6	17.6
Others	14.6	12.3	13.1	13.1	11.3	-	-	18.6	-	-
<b>Total Current Assets</b>	<b>217.2</b>	<b>330.9</b>	<b>306.7</b>	<b>306.7</b>	<b>269.3</b>	<b>284.8</b>	<b>284.8</b>	<b>236.0</b>	<b>261.7</b>	<b>261.7</b>
Contract assets	-	-	13.4	13.4	18.1	21.5	21.5	24.3	36.5	36.5
Deferred tax asset	3.0	7.4	11.3	11.3	9.4	4.5	4.5	11.3	3.3	3.3
Security deposits	9.0	18.5	16.7	16.7	25.7	28.1	28.1	31.3	35.6	35.6
Loan to associate	2.6	2.4	2.4	2.4	2.5	2.5	2.5	2.5	-	-
Right of use assets	14.0	19.1	20.1	20.1	26.8	28.6	28.6	24.3	18.3	18.3
Goodwill	14.9	14.9	14.9	14.9	14.9	14.9	14.9	12.4	12.4	12.4
Trade and other receivable	12.1	13.9	2.1	2.1	-	-	-	-	-	-
Intangible assets	17.2	21.4	19.7	19.7	18.4	17.1	17.1	13.2	12.4	12.4
Property, plant, and equipment	8.1	18.2	29.1	29.1	35.5	56.1	56.1	34.8	37.2	37.2
Other	7.2	0.9	1.0	1.0	3.8	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 305.3</b>	<b>\$ 447.7</b>	<b>\$ 437.4</b>	<b>\$ 437.4</b>	<b>\$ 424.5</b>	<b>\$ 458.1</b>	<b>\$ 458.1</b>	<b>\$ 390.2</b>	<b>\$ 417.4</b>	<b>\$ 417.4</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>										
Trade and other payables	37.0	54.4	52.2	52.2	40.6	35.4	35.4	62.1	43.2	43.2
Contract liabilities	-	-	-	-	-	7.7	7.7	-	22.2	22.2
Secured borrowings	-	-	-	-	-	34.4	34.4	34.8	21.4	21.4
Unsecured borrowings	-	-	-	-	-	-	-	-	1.9	1.9
Lease liabilities	2.6	3.3	3.4	3.4	4.1	5.2	5.2	5.1	3.9	3.9
Current tax payable	8.4	-	0.0	0.0	0.2	-	-	-	-	-
Provisions	12.9	17.2	15.1	15.1	15.5	14.2	14.2	21.2	12.2	12.2
<b>Total Current Liabilities</b>	<b>60.8</b>	<b>74.8</b>	<b>70.8</b>	<b>70.8</b>	<b>60.5</b>	<b>96.8</b>	<b>96.8</b>	<b>123.2</b>	<b>104.8</b>	<b>104.8</b>
Secured borrowings	-	-	-	-	-	-	-	-	49.4	49.4
Lease liabilities	11.4	16.3	17.7	17.7	23.4	24.9	24.9	26.0	20.5	20.5
Provisions	6.5	5.2	9.3	9.3	10.9	7.2	7.2	8.8	9.6	9.6
<b>Total Liabilities</b>	<b>78.7</b>	<b>96.4</b>	<b>97.8</b>	<b>97.8</b>	<b>94.8</b>	<b>128.9</b>	<b>128.9</b>	<b>158.0</b>	<b>184.3</b>	<b>184.3</b>
Issued Capital	274.3	412.9	413.5	413.5	413.7	413.7	413.7	413.7	432.2	432.2
Reserves	9.3	9.8	8.4	8.4	9.9	11.6	11.6	13.5	12.5	12.5
Accumulated losses	(56.6)	(70.4)	(81.0)	(81.0)	(92.3)	(94.0)	(94.0)	(192.4)	(208.5)	(208.5)
<b>Total Parent Net Equity</b>	<b>227.1</b>	<b>352.2</b>	<b>340.9</b>	<b>340.9</b>	<b>331.4</b>	<b>331.3</b>	<b>331.3</b>	<b>234.8</b>	<b>236.3</b>	<b>236.3</b>
Minority interest	(0.5)	(0.9)	(1.3)	(1.3)	(1.7)	(2.2)	(2.2)	(2.7)	(3.2)	(3.2)
<b>Total Consolidated Equity</b>	<b>226.5</b>	<b>351.3</b>	<b>339.6</b>	<b>339.6</b>	<b>329.6</b>	<b>329.2</b>	<b>329.2</b>	<b>232.2</b>	<b>233.1</b>	<b>233.1</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 305.3</b>	<b>\$ 447.7</b>	<b>\$ 437.4</b>	<b>\$ 437.4</b>	<b>\$ 424.5</b>	<b>\$ 458.1</b>	<b>\$ 458.1</b>	<b>\$ 390.2</b>	<b>\$ 417.4</b>	<b>\$ 417.4</b>

**Liquidity**

Current Ratio	3.6x	4.4x	4.3x	4.3x	4.5x	2.9x	2.9x	1.9x	2.5x	2.5x
Quick Ratio	2.7x	3.4x	3.4x	3.4x	3.3x	2.2x	2.2x	1.2x	1.8x	1.8x
Working Capital	156.35	256.10	235.91	235.91	208.83	187.99	187.99	112.81	156.88	156.88

**Leverage**

Debt to Equity	6.2%	5.6%	6.2%	6.2%	8.4%	19.6%	19.6%	28.4%	41.7%	41.7%
Debt to Capital	5.8%	5.3%	5.9%	5.9%	7.7%	16.4%	16.4%	22.1%	29.4%	29.4%

**Profitability**

Return on Average Assets	8.3%	-3.7%	-2.4%	-6.6%	-2.6%	-0.4%	-2.9%	-23.2%	-4.0%	-26.2%
Return on Average Equity	11.2%	-4.8%	-3.1%	-8.6%	-3.4%	-0.5%	-3.9%	-35.1%	-6.9%	-40.7%

Source: Company Reports, Stonegate Capital Partners

## INCOME STATEMENT

Electro Optic Systems Holdings Limited Consolidated Statements of Income (in AUD\$ M, except per share amounts) Fiscal Year End: December														
	FY 2019	FY 2020	Q2 Jun-21	Q4 Dec-21	FY 2021	Q2 Jun-22	Q4 Dec-22	FY 2022	Q2 E Jun-23	Q4 E Dec-23	FY 2023E	Q2 E Jun-24	Q4 E Dec-24	FY 2024E
Revenues	\$ 165.4	\$ 180.2	\$ 97.8	\$ 114.5	\$ 212.3	\$ 53.8	\$ 84.1	\$ 137.9	\$ 72.6	\$ 92.5	\$ 165.1	\$ 94.4	\$ 101.8	\$ 196.2
Other revenue & inc	0.6	(5.6)	3.9	6.9	10.8	7.6	6.9	14.5	10.3	7.6	17.9	13.4	8.3	21.7
<b>Total Revenues</b>	<b>166.0</b>	<b>174.6</b>	<b>101.7</b>	<b>121.4</b>	<b>223.1</b>	<b>61.4</b>	<b>91.0</b>	<b>152.4</b>	<b>82.9</b>	<b>100.1</b>	<b>183.0</b>	<b>107.8</b>	<b>110.1</b>	<b>217.9</b>
Operating Expenses:														
Cost of raw materials	84.4	77.7	74.6	42.6	117.2	25.7	61.7	87.5	45.6	55.1	100.7	56.6	57.8	114.4
Changes in inventory	5.7	38.3	(17.9)	12.2	(5.7)	8.6	(4.7)	3.9	-	-	-	-	-	-
<b>Gross Profit</b>	<b>75.9</b>	<b>58.6</b>	<b>45.0</b>	<b>66.6</b>	<b>111.6</b>	<b>27.1</b>	<b>34.0</b>	<b>61.0</b>	<b>37.3</b>	<b>45.1</b>	<b>82.4</b>	<b>51.2</b>	<b>52.3</b>	<b>103.5</b>
Employee benefits expense	33.7	53.2	33.8	25.3	59.1	37.3	25.7	63.0	33.5	26.0	59.5	32.5	26.5	59.1
Occupancy costs	0.5	1.7	0.8	0.9	1.7	1.1	0.8	1.9	1.0	0.8	1.8	0.9	0.8	1.7
Administration expenses	14.1	19.8	9.4	6.4	15.8	20.2	3.1	23.3	19.1	3.0	22.1	19.1	3.0	22.1
D&A	4.1	9.6	5.6	4.5	10.1	6.4	4.6	11.1	6.5	4.8	11.3	6.6	4.9	11.5
Finance costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairments	-	0.3	-	-	-	7.3	0.1	7.3	-	-	-	-	-	-
Other Expenses	1.7	2.5	1.2	1.1	2.3	3.3	(0.2)	3.1	1.5	1.5	3.0	1.7	1.2	2.9
Total Operating Expenses	54.1	87.1	50.8	38.1	89.0	75.4	34.2	109.7	61.6	36.0	97.7	60.9	36.3	97.2
<b>Operating Income</b>	<b>21.8</b>	<b>(28.5)</b>	<b>(5.9)</b>	<b>28.5</b>	<b>22.6</b>	<b>(48.4)</b>	<b>(0.3)</b>	<b>(48.6)</b>	<b>(24.3)</b>	<b>9.0</b>	<b>(15.3)</b>	<b>(9.7)</b>	<b>16.0</b>	<b>6.3</b>
Finance costs	(0.4)	(1.4)	(2.9)	(3.7)	(6.6)	(6.2)	(8.1)	(14.3)	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other gains/loses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Profit Before Taxes</b>	<b>21.4</b>	<b>(29.9)</b>	<b>(8.8)</b>	<b>24.8</b>	<b>16.0</b>	<b>(54.6)</b>	<b>(8.3)</b>	<b>(62.9)</b>	<b>(24.3)</b>	<b>9.0</b>	<b>(15.3)</b>	<b>(9.7)</b>	<b>16.0</b>	<b>6.3</b>
Provision for Income Tax	(3.8)	4.7	(2.9)	(6.3)	(9.2)	6.6	2.7	9.3	(3.6)	1.4	(2.3)	(1.0)	1.6	0.6
<b>Net Income</b>	<b>17.6</b>	<b>(25.2)</b>	<b>(11.7)</b>	<b>18.5</b>	<b>6.7</b>	<b>(48.0)</b>	<b>(5.6)</b>	<b>(53.6)</b>	<b>(28.0)</b>	<b>10.4</b>	<b>(17.6)</b>	<b>(10.7)</b>	<b>17.6</b>	<b>6.9</b>
Non-Controlling Interest	(0.4)	(0.8)	(0.4)	(0.4)	(0.8)	(0.5)	(0.5)	(1.0)	-	-	-	-	-	-
Discontinued Operations	-	-	-	(20.6)	(20.6)	(51.0)	(11.0)	(62.0)	-	-	-	-	-	-
<b>Net Income To Common Stkhldrs</b>	<b>18.0</b>	<b>(24.4)</b>	<b>(11.3)</b>	<b>(1.7)</b>	<b>(13.0)</b>	<b>(98.4)</b>	<b>(16.1)</b>	<b>(114.5)</b>	<b>(28.0)</b>	<b>10.4</b>	<b>(17.6)</b>	<b>(10.7)</b>	<b>17.6</b>	<b>6.9</b>
<b>Basic EPS</b>	<b>\$ 0.19</b>	<b>\$ (0.20)</b>	<b>\$ (0.09)</b>	<b>\$ (0.02)</b>	<b>\$ (0.09)</b>	<b>\$ (0.71)</b>	<b>\$ (0.07)</b>	<b>\$ (0.78)</b>	<b>\$ (0.20)</b>	<b>\$ 0.08</b>	<b>\$ (0.12)</b>	<b>\$ (0.08)</b>	<b>\$ 0.12</b>	<b>\$ 0.05</b>
<b>Diluted EPS</b>	<b>\$ 0.19</b>	<b>\$ (0.20)</b>	<b>\$ (0.09)</b>	<b>\$ (0.02)</b>	<b>\$ (0.09)</b>	<b>\$ (0.71)</b>	<b>\$ (0.07)</b>	<b>\$ (0.78)</b>	<b>\$ (0.20)</b>	<b>\$ 0.08</b>	<b>\$ (0.12)</b>	<b>\$ (0.08)</b>	<b>\$ 0.12</b>	<b>\$ 0.05</b>
WTD Shares Out - Basic	92.9	129.2	137.5	138.9	138.9	138.9	146.9	146.9	140.3	148.3	148.3	141.7	149.8	149.8
WTD Shares Out - Diluted	93.2	129.2	137.5	138.9	138.9	138.9	146.9	146.9	140.3	148.3	148.3	141.7	149.8	149.8
<b>EBITDA</b>	<b>27.6</b>	<b>(16.1)</b>	<b>1.0</b>	<b>34.0</b>	<b>35.0</b>	<b>(31.4)</b>	<b>4.3</b>	<b>(27.1)</b>	<b>(16.3)</b>	<b>15.3</b>	<b>(1.1)</b>	<b>(1.4)</b>	<b>22.0</b>	<b>20.6</b>
<b>Margin Analysis</b>														
Gross Margin	45.7%	33.6%	44.2%	54.9%	50.0%	44.1%	37.3%	40.0%	45.0%	45.0%	45.0%	47.5%	47.5%	47.5%
Operating Margin	13.1%	-16.3%	-5.8%	23.4%	10.1%	-78.7%	-0.3%	-31.9%	-29.3%	9.0%	-8.4%	-9.0%	14.5%	2.9%
EBITDA Margin	16.6%	-9.2%	1.0%	28.0%	15.7%	-51.1%	4.7%	-17.8%	-19.7%	15.2%	-0.6%	-1.3%	20.0%	9.5%
Pre-Tax Margin	12.9%	-17.1%	-8.7%	20.4%	7.2%	-88.8%	-9.2%	-41.3%	-29.3%	9.0%	-8.4%	-9.0%	14.5%	2.9%
Net Income Margin	10.6%	-14.4%	-11.5%	15.2%	3.0%	-78.1%	-6.2%	-35.2%	-33.7%	10.3%	-9.6%	-9.9%	16.0%	3.2%
Tax Rate	-17.5%	-15.7%	33.1%	-25.5%	-57.8%	-12.1%	-32.4%	-14.8%	15.0%	15.0%	15.0%	10.0%	10.0%	10.0%
<b>Growth Rate Y/Y</b>														
Total Revenue	75.0%	5.2%	35.1%	22.3%	27.8%	-39.6%	-25.0%	-31.7%	35.0%	10.0%	20.1%	30.0%	10.0%	19.1%
Total cost of revenues	48.2%	60.8%	26.8%	-18.8%	2.2%	48.4%	-10.2%	23.2%	-18.3%	5.3%	-10.9%	-1.2%	0.8%	-0.5%
Operating Income	44.1%	-230.7%	-65.0%	-343.4%	-179.3%	722.5%	-101.0%	-315.4%	-49.7%	-3373.0%	-68.5%	-60.1%	77.5%	-140.9%
Pre-Tax Income	41.9%	-239.7%	-52.8%	-320.5%	-153.4%	519.0%	-133.6%	-493.7%	-55.4%	-208.1%	-75.6%	-60.1%	77.5%	-140.9%
Net Income	17.0%	-242.9%	-17.8%	-268.7%	-126.7%	309.1%	-130.5%	-895.0%	-41.7%	-283.9%	-67.1%	-61.8%	69.8%	-139.1%

Source: Company Reports, Stonegate Capital Partners estimates

## Statement of Cash Flows

Electro Optic Systems Holdings Limited  
Consolidated Cash Flow Statements (AUD\$ M)  
Fiscal Year End: December

CASH FLOW	FY 2019	Q2 Jun-20	Q4 Dec-20	FY 2020	Q2 Jun-21	Q4 Dec-21	FY 2021	Q2 Jun-22	Q4 Dec-22	FY 2022
<b>Operating Activities</b>										
Receipts from customers	109.1	53.0	54.6	107.6	117.0	117.0	233.9	74.5	71.4	145.9
Payments to suppliers and employees	(141.3)	(103.8)	(100.6)	(204.4)	(109.7)	(115.6)	(225.3)	(86.2)	(102.4)	(188.6)
Income tax paid	(1.9)	(10.3)	(1.7)	(12.0)	(0.8)	(1.9)	(2.6)	(0.9)	(0.1)	(1.0)
Interest and bill discounts received	0.6	0.4	0.3	0.7	0.3	(0.3)	0.0	0.0	0.2	0.2
Interest and other cost of finance paid	(0.4)	(1.9)	0.9	(1.0)	(2.3)	(3.6)	(5.9)	(4.5)	(3.6)	(8.0)
<b>Cash flow generated/(absorbed) from operating Activities</b>	<b>(33.8)</b>	<b>(62.6)</b>	<b>(46.6)</b>	<b>(109.2)</b>	<b>4.6</b>	<b>(4.3)</b>	<b>0.2</b>	<b>(17.1)</b>	<b>(34.5)</b>	<b>(51.6)</b>
<b>Investing Activities</b>										
Payment for property, plant, and equipment	(4.6)	(12.0)	(12.5)	(24.6)	(9.0)	(20.0)	(29.0)	(16.1)	(3.2)	(19.3)
Security deposit for performance bond	-	(7.5)	0.3	(7.3)	(8.4)	(0.3)	(8.7)	(7.1)	(4.1)	(11.2)
Repayment of loan by associated entity	(2.8)	-	-	-	-	-	-	-	2.6	2.6
Payment to acquire a business	(1.3)	-	-	-	-	-	-	(0.4)	0.0	(0.4)
Payment for intangible assets	-	(5.0)	(0.1)	(5.2)	-	-	-	-	-	-
<b>Cash flow generated by Investing Activities</b>	<b>(8.6)</b>	<b>(24.6)</b>	<b>(12.4)</b>	<b>(37.0)</b>	<b>(17.3)</b>	<b>(20.4)</b>	<b>(37.7)</b>	<b>(23.6)</b>	<b>(4.7)</b>	<b>(28.3)</b>
<b>Financing Activities</b>										
Drawdown non-current bank loans and borrowings	-	-	-	-	-	-	-	-	14.6	14.6
Repayment non-current bank loans and borrowings	-	-	-	-	0.2	0.0	0.2	-	-	-
Net changes in current and non-current financial assets and liabilities	(1.7)	(1.5)	(1.7)	(3.2)	(2.1)	(1.7)	(3.9)	(2.6)	(2.5)	(5.0)
Non-monetary change	-	-	-	-	-	35.0	35.0	-	75.7	75.7
Distribution of Dividends	-	-	-	-	-	-	-	-	(35.8)	(35.8)
Acquisition of treasury shares	-	-	-	-	-	(0.8)	(0.8)	-	(4.1)	(4.1)
Proceeds from issue of new shares	81.3	138.6	0.6	139.2	-	-	-	-	-	-
<b>Cash flow generated/(absorbed) by financing Activities</b>	<b>79.6</b>	<b>137.0</b>	<b>(1.1)</b>	<b>135.9</b>	<b>(1.9)</b>	<b>32.5</b>	<b>30.6</b>	<b>(2.6)</b>	<b>47.9</b>	<b>45.4</b>
Effect of exchange rate changes on cash	0.2	0.4	(2.1)	(1.7)	(0.2)	0.4	0.2	(2.2)	(0.9)	(3.0)
<b>Net Cash flow in the year</b>	<b>37.3</b>	<b>50.3</b>	<b>(62.2)</b>	<b>(11.9)</b>	<b>(14.8)</b>	<b>8.1</b>	<b>(6.7)</b>	<b>(45.4)</b>	<b>7.8</b>	<b>(37.6)</b>
<b>Cash and Cash Equivalents</b>										
Beginning Cash balance	40.5	77.9	128.1	77.9	65.9	51.1	65.9	59.3	13.8	59.3
Ending Cash balance	77.9	128.1	65.9	65.9	51.1	59.3	59.3	13.8	21.7	21.7

Source: Company Reports, Stonegate Capital Partners

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