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Optex Systems Holdings, Inc. Announces Third Quarter of Fiscal Year 2020 Financial Highlights

RICHARDSON, TX / ACCESSWIRE / August 11, 2020 /Optex Systems Holdings, Inc. (OTCQB:OPXS), a leading manufacturer of precision optical sighting systems for domestic and worldwide military and commercial applications, announced financial highlights for its third quarter of the 2020 fiscal year, which ended June 28, 2020.

Our three- and nine-month period ending June 28, 2020 revenue increased over our prior year three- and nine-month period by 9.4% and 1.9%, respectively. We anticipate higher revenue during the final quarter of the fiscal year with two first article acceptance tests approved during the current year for ICWS periscopes and CWSS sighting systems. We continue shipping against our prior year ICWS periscope contract through the fourth quarter and will begin shipments against two sighting system contracts during the next three months. Gross margin, operating income and adjusted EBITDA increased significantly during the current year three-month period as compared to the prior year period on higher revenue, changes in revenue mix and favorable adjustments on metal reclamation on our Applied Optics Center day window program. Gross margin for the current year nine-month period increased slightly on higher revenue, whereas, operating income and adjusted EBITDA decreased slightly during the nine months as compared to the prior year due to increases in current year general and administrative costs.

Danny Schoening, CEO of Optex Systems Holdings, Inc., commented, "While some shipments moved from Q3 into Q4 due to Covid-19 supply chain issues and delayed government approvals, we're pleased with the path we're on and continue to see year over year revenue growth. Cash generation is strong which funds our current stock repurchase program and creates an extremely strong balance sheet during these unusual times. Finally, we believe that the government's procurement arm is working through the issues caused by Covid-19 in their solicitation process and we will see increased backlog in the next several months."

Optex Systems Holdings, Inc. is defined as essential critical infrastructure as a defense contractor under the guidance of the federal, state and local authorities for both our Optex Systems (Richardson, TX), and Applied Optics Center (Dallas, TX) operating segments. As such, the Company continues to remain open during the COVID-19 shelter in place orders and closures. To date, we have experienced minimal disruption as a result of the pandemic, with some contract delivery delays related to supplier COVID-19 impacts as well as quality issues. While we anticipate the possibility of some unforeseen operational impacts during the next six to twelve months related to travel restrictions, illness, or interruptions with our customer or supply chain, we believe we are in a strong position to mitigate any significant adverse financial impacts to the current fiscal year ending September 27, 2020.

Our key performance measures for the three and nine months ended June 28, 2020 and June 30, 2019 are summarized below.

Metric	(Thousands)					
	Three months ended			Nine months ended		
	June 28, 2020	June 30, 2019	% Change	June 28, 2020	June 30, 2019	% Change
Revenue	\$ 5,849	\$ 5,347	9.4	\$ 18,682	\$ 18,325	1.9
Gross Margin	\$ 1,481	\$ 1,073	38.0	\$ 4,568	\$ 4,496	1.6
Gross Margin %	25.3%	20.1%	25.9	24.5%	24.5%	-
Operating Income	\$ 626	\$ 265	236.2	\$ 2,126	\$ 2,146	(0.9)
Gain (Loss) on Change Fair Value of Warrants	\$ (585)	\$ 81	(822.2)	\$ (504)	\$ (465)	(8.4)
Net Income (Loss) Applicable to Common Shareholders	\$ (95)	\$ 252	(365.3)	\$ 798	\$ 957	(16.6)
Adjusted EBITDA (non-GAAP)	\$ 750	\$ 385	94.8	\$ 2,431	\$ 2,508	(3.0)

Backlog as of June 28, 2020, was \$20.0 million as compared to a backlog of \$24.6 million as of September 29, 2019, representing a decrease of \$4.6 million or 18.7%. During the nine months ended June 28, 2020, the Company booked \$14.0 million in new orders as compared to \$21.4 million in the prior year period. We attribute the \$7.4 million decrease in orders to the timing of contract awards, IDIQ task order releases and purchase orders from our customers. We believe the COVID-19 pandemic is a driving factor in lower contract awards since March 2020 as many customers and agencies adapt to remote work arrangements, limited travel and slower Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) responses to solicitations, price audits and contract awards. On August 3, 2020, the Company announced a \$2.0 Million order from a U. S. prime contractor for optical subassemblies for shipments starting in 2021. We do not expect COVID-19 to have a material effect to the demand for the company's products or services over the next twelve months, however we remain cautious that a long-term pandemic could impact Congressional Budgets and future defense spending as the U.S. government seeks to mitigate the public health crisis and fund COVID-19 economic recovery efforts.

	(millions)		
	June 28, 2020	September 29, 2019	% Change
Backlog as of period end	\$ 20.0	\$ 24.6	(18.7)

We use adjusted earnings before interest, taxes, gains/losses on changes in fair values, depreciation and amortization (EBITDA) as an additional measure for evaluating the performance of our business as "net income" includes the significant impact of non-cash valuation gains and losses on warrant liabilities, noncash compensation expenses related to equity stock issuances, as well as depreciation, amortization, interest expenses and federal income taxes. We believe that adjusted EBITDA is a meaningful indicator of our operating performance because it permits period-over-period comparisons of our ongoing core operations before certain excluded items. Adjusted EBITDA is a financial measure not required by, or presented in accordance with U.S. generally accepted accounting principles

("GAAP").

The table below summarizes our three-month operating results for periods ended June 28, 2020 and June 30, 2019, in terms of both the GAAP net income measure and the non-GAAP adjusted EBITDA measure. We believe that including both measures provides measures that are useful in evaluating our financial results across periods.

	(Thousands)			
	Three months ended		Nine Months ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
Net (Loss) Income - (GAAP)	\$ (95)	\$ 376	\$ 1,170	\$ 1,428
<i>Add:</i>				
Loss (Gain) on Change in Fair Value of Warrants	585	(81)	504	465
Federal Income Tax Expense (Benefit)	131	(35)	435	236
Depreciation	61	86	185	255
Stock Compensation	63	26	120	84
Royalty License Amortization	-	8	-	23
Interest Expense	5	5	17	17
Adjusted EBITDA - Non-GAAP	\$ 750	\$ 385	\$ 2,431	\$ 2,508

Highlights of the unaudited Condensed Consolidated and Segment Results of Operations have been prepared in accordance with GAAP. These financial highlights do not include all information and disclosures required in the consolidated financial statements and footnotes, and should be read in conjunction with our Annual Report on Form 10-K for the year ended September 29, 2019 filed with the SEC on December 16, 2019 and Form 10-Q for the three and nine months ended June 28, 2020 filed with the SEC on May 11, 2020.

Optex Systems Holdings, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	(Thousands, except share and per share data)			
	Three months ended		Nine months ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
Revenue	\$ 5,849	\$ 5,347	\$ 18,682	\$ 18,325
Cost of Sales	4,368	4,274	14,114	13,829
Gross Margin	1,481	1,073	4,568	4,496
General and Administrative Expense	855	808	2,442	2,350
Operating Income	626	265	2,126	2,146
(Loss) Gain on Change in Fair Value of Warrants	(585)	81	(504)	(465)
Interest Expense	(5)	(5)	(17)	(17)
Other (Expense) Income	(590)	76	(521)	(482)
Income Before Taxes	36	341	1,605	1,664
Income Tax Expense (Benefit), net	\$ 131	\$ (35)	435	236
Net (Loss) Income	\$ (95)	\$ 376	\$ 1,170	\$ 1,428
Deemed dividends on participating securities	-	(124)	(372)	(471)
Net (loss) income applicable to common shareholders	\$ (95)	\$ 252	\$ 798	\$ 957
Basic (loss) income per share	\$ (0.01)	\$ 0.03	\$ 0.09	\$ 0.11
Weighted Average Common Shares Outstanding - basic	8,491,803	8,398,314	8,472,739	8,372,918
Diluted (loss) income per share	\$ (0.01)	\$ 0.03	\$ 0.09	\$ 0.11
Weighted Average Common Shares Outstanding - diluted	8,491,803	9,649,660	8,596,745	9,114,055

The accompanying notes in our Quarterly Report on Form 10-Q for the period ended June 28, 2020 filed with the SEC on May 13, 2020 are an integral part of these financial statements.

**Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets
(Thousands, except share and per share data)**

	<u>June 28, 2020 (Unaudited)</u>	<u>September 29, 2019</u>
ASSETS		
Cash and Cash Equivalents	\$ 2,788	\$ 1,068
Accounts Receivable, Net	2,977	3,066
Inventory, Net	10,203	10,535
Prepaid Expenses	279	348
	<u>16,247</u>	<u>15,017</u>
Current Assets		
Property and Equipment, Net	1,067	1,102
Other Assets		
Deferred Tax Asset	1,270	1,414
Right-of-use Asset	1,517	-
Security Deposits	23	23
	<u>2,810</u>	<u>1,437</u>
Other Assets		
Total Assets	\$ 20,124	\$ 17,556
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 1,058	\$ 1,833
Operating Lease Liability	485	-
Accrued Expenses	1,090	1,180
Accrued Warranty Costs	111	46
Credit Facility	-	250
Customer Advance Deposits	-	3
	<u>2,744</u>	<u>3,312</u>
Current Liabilities		
Credit Facility - Long Term	377	-
Operating Lease Liability - Long Term	1,083	-
Warrant Liability	2,540	2,036
	<u>6,744</u>	<u>5,348</u>
Total Liabilities		
Commitments and Contingencies		
Stockholders' Equity		
Common Stock - (\$0.001 par, 2,000,000,000 authorized, 8,795,869 and 8,436,422 shares issued, and 8,761,626 and 8,436,422 outstanding, respectively)	9	8
Treasury Stock (at cost, 34,243 shares and zero shares held, respectively)	(64)	-
Additional Paid in capital	26,199	26,134
Accumulated Deficit	(12,764)	(13,934)
	<u>13,380</u>	<u>12,208</u>
Stockholders' Equity		
Total Liabilities and Stockholders' Equity	\$ 20,124	\$ 17,556

The accompanying notes in our Quarterly Report on Form 10-Q for the period ended June 28, 2020 filed with the SEC on May 13, 2020 are an integral part of these financial statements.

ABOUT OPTEX SYSTEMS

Optex, which was founded in 1987, is a Richardson, Texas based ISO 9001:2015 certified

concern, which manufactures optical sighting systems and assemblies, primarily for Department of Defense (DOD) applications. Its products are installed on various types of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, Light Armored and Armored Security Vehicles, and have been selected for installation on the Stryker family of vehicles. Optex also manufactures and delivers numerous periscope configurations, rifle and surveillance sights, and night vision optical assemblies. Optex delivers its products both directly to the military services and to prime contractors. For additional information, please visit the Company's website at www.optexsys.com.

Safe Harbor Statement

This press release contains certain forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, including those relating to the products and services described herein. You can identify these statements by the use of the words "may," "will," "could," "should," "would," "plans," "expects," "anticipates," "continue," "estimate," "project," "intend," "likely," "forecast," "probable," and similar expressions. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, continued funding of defense programs and military spending, the timing of such funding, general economic and business conditions, including unforeseen weakness in the Company's markets, effects of continued geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in completing engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, changes in the U.S. Government's interpretation of federal procurement rules and regulations, changes in spending due to policy changes in any new federal presidential administration, market acceptance of the Company's products, shortages in components, production delays due to performance quality issues with outsourced components, inability to fully realize the expected benefits from acquisitions and restructurings or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, changes to export regulations, increases in tax rates, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, unanticipated costs under fixed-price service and system integration engagements, changes in the market for microcap stocks regardless of growth and value and various other factors beyond our control.

You must carefully consider any such statement and should understand that many factors could cause actual results to differ from the Company's forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially. The Company does not assume the obligation to update any forward-looking statement. You should carefully evaluate such statements in light of factors described in the Company's filings with the SEC, especially on Forms 10-K, 10-Q and 8-K. In various filings the Company has identified important factors that could cause actual results to differ from expected or historic results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete list of all potential risks or uncertainties.

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