

December 19, 2022



Optex Systems Holdings, Inc. Announces Twelve Months Ended October 2, 2022 Financial Highlights

RICHARDSON, TX / ACCESSWIRE / December 19, 2022 /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 the twelve months ended October 2, 2022.

Danny Schoening, CEO of Optex Systems Holdings, Inc., commented, "This was an exceptionally strong year for Optex, driven by outstanding fourth quarter shipments of \$6.7M in Revenue driving an adjusted fourth quarter EBITDA of \$1.4M. Our backlog is strong and growing with new customers bringing multi year programs further broadening our product offerings. Our customers continue to design our products into their latest platforms and reward us for the value that we provide. Finally, our shareholders expressed strong support for our stock tender which we believe was an excellent use of our surplus capital. Supply chain issues will continue to cause some headwinds during the first quarter of 2023; however, our team's actions have already mitigated any long-term effects of a still strained supply chain. While 2022 was a strong and fulcrum year, we believe continued revenue growth, profitability and diversity in programs is a realistic goal for 2023."

For the twelve months ended October 2, 2022, our total revenues increased by \$4.2, or 22.8% compared to the prior year twelve months. The increase in revenue for the year was primarily driven by an increase of \$6.5 million in revenue at the Applied Optics Center segment, partially offset by a decrease of \$2.3 million in revenue at the Optex Richardson segment.

Consolidated gross margin for the twelve months ended October 2, 2022 increased by \$2.4 million, or 94.3%, compared to the prior year. The increase in gross margin is primarily attributable to a significant shift in revenue from the Optex-Richardson segment to higher margin products in the Applied Optics segment combined with higher absorption of the Applied Optics segment fixed overhead cost base associated with higher production levels.

Operating income increased by \$2.1 million in the year ended October 2, 2022 to an income of \$1.6 million as compared to the prior year operating loss of \$(0.5) million. The increase in operating income is primarily attributable to increased revenue and gross margin at the Applied Optics Center segment.

As of October 2, 2022, Optex Systems Holdings had working capital of \$10.0 million, as compared to \$12.9 million as of October 3, 2021. During the twelve months ended October 2, 2022, we generated operating cash flow of \$2.0 million and spent (\$4.7) million for the purchase of shares against our stock repurchase plan and common stock tender offer and (\$0.25) million on acquisitions of property and equipment.

On September 22, 2021 the Company announced authorization for an additional \$1 million stock repurchase program. During the twelve months ended October 2, 2022, the Company purchased 190,954 common shares under the September 2021 stock repurchase plan at a cost of \$371 thousand. As of October 2, 2022, there was an authorized balance of \$560 thousand remaining to be spent against the repurchase program.

On September 15, 2022, the Company's "modified Dutch auction" tender offer expired. In accordance with the terms and conditions of the tender offer, the Company accepted for purchase 1,603,773 shares of common stock at a price of \$2.65 per share, for an aggregate cost of approximately \$4.25 million, excluding fees and expenses relating to the tender offer. These shares represented approximately 19.3% of its shares of common stock outstanding as of September 15, 2022.

We ended the year 2022 with a cash balance of \$0.9 million as compared to \$3.9 million as of the fiscal year end 2021. As of October 2, 2022, our outstanding accounts receivable was \$2.9 million. As of October 2, 2022, the Company had an outstanding payable balance of zero against our line of credit. The line of credit was renewed on April 12, 2022 through April 15, 2023 for a maximum borrowing amount of \$1.1 million and amended on November 21, 2022 to a maximum borrowing amount of \$2.0 million.

Our key performance measures for the twelve months ended October 2, 2022 and October 3, 2021 are summarized below.

Metric	(Thousands) Twelve months ended		
	October 2, 2022	October 3, 2021	% Change
Revenue	\$ 22,383	\$ 18,222	22.8
Gross Margin	\$ 4,897	\$ 2,520	94.3
Gross Margin %	21.9 %	13.8 %	58.7
Operating Income	\$ 1,647	\$ (494)	433.4
Gain on Change Fair Value of Warrants	\$ -	\$ 2,535	(100.0)
Net Income Applicable to Common Shareholders	\$ 1,283	\$ 1,471	(12.8)
Adjusted EBITDA (non-GAAP)	\$ 2,116	\$ (3)	N/A

Backlog as of October 2, 2022 has increased by \$5.6 million or 20.5% to \$32.9 million as compared to backlog of \$27.3 million as of October 3, 2021.

		(millions)	
	October 2, 2022	October 3, 2021	% Change
Backlog as of period end	\$ 32.9	\$ 27.3	20.5

We use adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) as an additional measure for evaluating the performance of our business as "net income" includes the significant impact of noncash valuation gains and losses on warrant liabilities, noncash compensation expenses related to equity stock issues, 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 the excluded items, which we do not consider relevant to our operations. Adjusted EBITDA is a financial measure not required by, or presented in accordance with, U.S. generally accepted accounting principles ("GAAP").

Adjusted EBITDA has limitations and should not be considered in isolation or a substitute for performance measures calculated under GAAP. This non-GAAP measure excludes certain cash expenses that we are obligated to make. In addition, other companies in our industry may calculate Adjusted EBITDA differently than we do or may not calculate it at all, which limits the usefulness of Adjusted EBITDA as a comparative measure.

The table below summarizes our twelve-month operating results for the years ended October 2, 2022 and October 3, 2021, in terms of both the GAAP net income measure and the non-GAAP Adjusted EBITDA measure. We believe that including both measures allows the reader better to evaluate our overall performance.

	(Thousands) Twelve months ended	
	October 2, 2022	October 3, 2021
Net Income - GAAP	\$ 1,283	\$ 2,131
Add:		
(Gain) Loss on Change in Fair Value of Warrants	-	(2,535)
Federal Income Tax Expense (Benefit)	364	(101)
Depreciation	307	263
Stock Compensation	162	228
Interest Expense	-	11
Adjusted EBITDA - Non GAAP	\$ 2,116	\$ (3)

Our Adjusted EBITDA increased by \$2.1 million to \$2.1 million during the twelve months ended October 2, 2022 as compared to \$0.0 million during the twelve months ended October 3, 2021. The increase in EBITDA is primarily driven by increased revenue and operating profit during the current year as compared to the prior year twelve-month period.

Net income decreased by \$0.8 million during the twelve months ended October 2, 2022 as compared to the prior year. During the twelve months ended October 2, 2022, we did not recognize either a gain or a loss on the change in fair value of warrants, as the warrants had expired on August 26, 2021 in accordance with their terms. By comparison, during the twelve months ended October 3, 2021, we recognized a gain on the change in fair value of

warrants of \$2.5 million.

We have experienced significant material shortages during the three months ended October 2, 2022 and extending into the first three months of fiscal year 2023 from two significant suppliers of our periscope covers and housings. These shortages affect several of our periscope products at the Optex Richardson segment. The delays in key components, combined with labor shortages during the first quarter of fiscal year 2023 to date have negatively impacted our production levels and have pushed the expected delivery dates into the second and third quarters of fiscal year 2023. We are aggressively seeking alternative sources for these components as well as increasing employee recruitment initiatives and overtime to mitigate any continuing risks to the periscope line. In addition, one of our major customers for the Applied Optics Center has requested a significant schedule delay pushing their laser filter unit delivery schedules from the first half into the second half of fiscal year 2023.

We expect the combination of these issues to negatively impact our revenue during the first three months of fiscal year 2023. Our first quarter revenue projection is expected to be approximately 8-9% below the 2022 first quarter level.

In November 2022, we increased our line of credit to \$2.0 million from \$1.125 million to facilitate our working capital requirements due to the delays and increased backlog. We anticipate revenues, and working capital, in the second half of fiscal year 2023 to increase significantly from the first six months with a full recovery expected by fiscal year end 2023. Based on our current backlog, we anticipate an overall increase for fiscal year 2023 revenues as compared to the 2022 levels.

On December 7, 2022 the Company submitted an application to list its common stock on the NASDAQ Capital Market. There are no assurances (1) that the Company will continue to meet the initial listing criteria throughout the pendency of the application (including with respect to its share price), (2) that NASDAQ will approve the application or (3) relating to the timing of any such approval. If and when listed on NASDAQ, there are no assurances that the Company will continue to meet NASDAQ's continued listing requirements.

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 fiscal year ended October 2, 2022 filed with the SEC on December 19, 2022.

Optex Systems Holdings, Inc.
Consolidated Balance Sheets

		(Thousands, except share and per share data)	
		October 2, 2022	October 3, 2021
ASSETS			
Cash and Cash Equivalents	\$	934	\$ 3,900
Accounts Receivable, Net		2,908	3,183
Inventory, Net		9,212	7,583
Prepaid Expenses		328	262
Current Assets		13,382	14,928
Property and Equipment, Net		968	1,017
Other Assets			
Deferred Tax Asset		942	1,288
Right-of-use Asset		3,222	3,599
Security Deposits		23	23
Other Assets		4,187	4,910
Total Assets	\$	18,537	\$ 20,855
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable	\$	706	\$ 551
Operating Lease Liability		604	528
Federal Income Taxes Payable		331	-
Accrued Expenses		958	800
Accrued Warranty Costs		169	78
Contract Loss Reserves		289	51
Customer Advance Deposits		311	-
Current Liabilities		3,368	2,008
Other Liabilities			
Operating Lease Liability, net of current portion		2,761	3,133
Other Liabilities		2,761	3,133
Total Liabilities		6,129	5,141
Commitments and Contingencies		-	
Stockholders' Equity			
Common Stock - (\$0.001 par, 2,000,000,000 authorized, 6,716,638 and 8,523,704 shares issued, and 6,716,638 and 8,488,149 shares outstanding, respectively)		7	9
Treasury Stock (at cost, zero and 35,555 shares held, respectively)			(69)
Additional Paid in capital		21,096	25,752
Accumulated Deficit		(8,695)	(9,978)
Stockholders' Equity		12,408	15,714
Total Liabilities and Stockholders' Equity	\$	18,537	\$ 20,855

The accompanying notes in our Annual Report on Form 10-K for the fiscal year ended October 2, 2022 filed with the SEC on December 19, 2022 are an integral part of these financial statements.

**Optex Systems Holdings, Inc.
Consolidated Statements of Income**

	(Thousands, except share and per share data)	
	Twelve months ended	
	October 2, 2022	October 3, 2021
Revenue	\$ 22,383	\$ 18,222
Cost of Sales	17,486	15,702
Gross Margin	4,897	2,520
General and Administrative Expense	3,250	3,014
Operating Income (Loss)	1,647	(494)
Gain on change in fair value of warrants		2,535
Interest Expense	-	(11)
Other Income (Expense)	-	2,524
Income Before Taxes	1,647	2,030
Income Tax Expense (Benefit), net	364	(101)
Net Income	\$ 1,283	\$ 2,131
Deemed dividends on participating securities	-	(660)
Net income applicable to common shareholders	\$ 1,283	\$ 1,471
Basic income per share	\$ 0.16	\$ 0.18
Weighted Average Common Shares Outstanding - basic	8,219,069	8,241,021
Diluted income per share	\$ 0.16	\$ 0.18
Weighted Average Common Shares Outstanding - diluted	8,219,069	8,323,809

The accompanying notes in our Annual Report on Form 10-K for the fiscal year ended October 2, 2022 filed with the SEC on December 19, 2022 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 represent our expectations, beliefs, intentions or strategies concerning future events, including, but not limited to, any statements regarding our financial

performance, including revenues; our financial position, including working capital; backlog; follow-on orders; the impact of the COVID-19 pandemic; supply chain challenges, including supplier delays, labor shortages and customer schedule changes; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations; and the economy in general or the future of the defense industry. *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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