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Optex Systems Holdings, Inc. Announces Three Months Ended January 2, 2022 Financial Highlights

RICHARDSON, TX / ACCESSWIRE / February 14, 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 three months ended January 2, 2022.

Danny Schoening, CEO of Optex Systems Holdings, Inc., commented, "With the increase in backlog compared to the prior year period, we are seeing strong evidence that the demand is starting to recover to historical levels. This, combined with wins on new platforms such as the Laser Filter Units, point towards a strong second half with many of these programs [RSC1] [SD2] [SD3] [SD4] having a three to five year life cycle. We have seen increases in demand and proposal activity for both laser coated filters and optical assemblies, compared to the prior year period, and anticipate additional order bookings for both our commercial and military products for deliveries in fiscal year 2022 and beyond. The coatings business enjoys higher margins, significantly higher competitive barriers, and long production lifecycles. In that same spirit we believe that repurchase of our shares, at current prices, is a good use of excess capital and have continued to do so."

Our total revenues decreased by \$131 thousand, or 2.9%, comparing the three months ended January 2, 2022 with the three months ended December 27, 2020. The decrease in revenue was primarily driven by a \$1.2 million decrease in revenue at the Optex Richardson segment over the prior year period, which was almost offset by a \$1.1 million [RSC5] increase in external sales at the Applied Optics Center segment. During the year ended October 3, 2021, we realized a significant increase in customer orders and backlog for the Applied Optics Center segment. We expect revenue for the Applied Optics Center to increase over the course of the 2022 fiscal year as compared to the prior year periods consistent with the recent increases in customer demand for optical assemblies and laser filter units.

Consolidated gross margin for the three months ended January 2, 2022 decreased by \$12 thousand, or 1.4%, compared to the prior year period. The decrease in margin was primarily attributable to a decrease in consolidated revenue and changes in revenue mix between the segments.

Our operating income for the three months ended January 2, 2022 decreased by \$64 thousand to \$15 thousand, as compared to the prior year period operating income of \$79 thousand. The decrease in operating income was primarily driven by lower gross margin and increased general and administrative spending.

As of January 2, 2022, the Company had working capital of \$12.9 million, as compared to

\$12.9 million as of October 3, 2021. During the three months, we generated operating cash flow of \$1.5 million, and spent \$90 thousand on purchases of equipment and \$74 thousand for the purchase of 37,238 shares against our stock repurchase program. We ended the quarter with a strong cash balance of \$5.3 million as compared to \$3.9 million as of the fiscal year end 2021. As of January 2, 2022, the Company had an outstanding payable balance of zero against its line of credit. The line of credit allows for borrowing up to a maximum of \$2.3 million. As of January 2, 2022, our outstanding accounts receivable were \$2.0 million.

Our key performance measures for the three months ended January 2, 2022 and December 27, 2020 are summarized below.

Metric	(Thousands)		
	Three months ended		% Change
	January 2, 2022	December 27, 2020	
Revenue	\$ 4,340	\$ 4,471	(2.9)
Gross Margin	\$ 823	\$ 835	(1.4)
Gross Margin %	19.0 %	18.7 %	1.6
Operating Income	\$ 15	\$ 79	(81.0)
Gain on Change Fair Value of Warrants	\$ -	\$ 1,027	(100.0)
Net Income Applicable to Common Shareholders	\$ 29	\$ 726	(96.0)
Adjusted EBITDA (non-GAAP)	\$ 144	\$ 199	(27.6)

Beginning in April 2020 through October 3, 2021, we experienced a significant reduction in new orders and ending customer backlog in our Optex Richardson segment, resulting in an overall decrease in backlog of 40% between September 29, 2019 and October 3, 2021. We attribute the lower orders to a combination of factors including a COVID-19 driven slow-down of contract awards for both U.S. military sales and foreign military sales (FMS), combined with significant shifting in defense spending budget allocations in US military sales and FMS away from Army ground system vehicles toward other military agency applications. In addition, the pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supply chain issues.

While the Applied Optics Center segment experienced a significant decline in orders during the second half of fiscal year 2020, the segment saw a sizable increase in new orders during the fiscal year ended October 3, 2021 as a result of increased military spending in Army infantry optical equipment and a larger customer base and higher customer demand for commercial optical assemblies. As of October 3, 2021, the Applied Optics Center segment backlog had increased by 153% as compared to the level on September 29, 2019. As a result of this significant shift in orders and backlog between segments, we anticipate

corresponding shifts in revenue during the 2022 fiscal year, with decreasing revenue at the Optex Richardson segment, and increasing revenue at the Applied Optics Center segment.

Backlog as of January 2, 2022 was \$26.5 million as compared to a backlog of \$27.3 million as of October 3, 2021 and \$15.0 million as of the prior year period ending December 27, 2020, representing a decrease of 2.9%, and an increase of 76.7%, respectively. During the three months ended January 2, 2022, Optex Systems Holdings received new orders totaling \$3.5 million, a 9.4% increase, as compared to new orders of \$3.2 million during the three months ending December 27, 2020.

	(millions)				
	<u>January 2, 2022</u>	<u>October 3, 2021</u>	<u>% Change</u>	<u>December 27, 2020</u>	<u>% Change</u>
Backlog as of period end	\$ 26.5	\$ 27.3	(2.9)	\$ 15.0	76.7

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 three-month operating results for the periods ended January 2, 2022 and December 27, 2020, 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.

	<u>Three months ended</u>	
	<u>January 2, 2022</u>	<u>December 27, 2020</u>
Net Income - (GAAP)	\$ 29	\$ 1,087
<i>Add:</i>		
Gain on Change in Fair Value of Warrants	-	(1,027)
Federal Income Tax (Benefit) Expense	(14)	16
Depreciation	72	63
Stock Compensation	57	57
Interest Expense	-	3
Adjusted EBITDA - Non-GAAP	<u>\$ 144</u>	<u>\$ 199</u>

Our net income decreased by \$1.1 million to \$0.0 million for the three months ended

January 2, 2022, as compared to \$1.1 million for the three months ended December 27, 2020. Our Adjusted EBITDA decreased by \$0.1 million to \$0.1 million for the three months ended January 2, 2022, as compared to \$0.2 million for the three months ended December 27, 2020. The decrease in the three-month period is primarily driven by lower revenue and operating profit in the Optex Richardson segment as compared to the prior year.

During the three months ended January 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 three months ended December 27, 2020, we recognized a gain on the change in fair value of warrants of (\$1.0) million.

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 Quarterly Report on Form 10-Q for the period ended January 2, 2022 filed with the SEC on February 14, 2022 and our Annual Report on Form 10-K for the year ended October 3, 2021 filed with the SEC on December 20, 2021.

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

	(Thousands, except share and per share data)	
	Three months ended	
	January 2, 2022	December 27, 2020
Revenue	\$ 4,340	\$ 4,471
Cost of Sales	3,517	3,636
Gross Margin	823	835
General and Administrative Expense	808	756
Operating Income	15	79
Gain on Change in Fair Value of Warrants	-	1,027
Interest Expense	-	(3)
Other Income	-	1,024
Income Before Taxes	15	1,103
Income Tax (Benefit) Expense, net	\$ (14)	\$ 16
Net Income	\$ 29	\$ 1,087
Deemed dividends on participating securities	-	(361)
Net income applicable to common shareholders	\$ 29	\$ 726
Basic income per share	\$ 0.00	\$ 0.09
Weighted Average Common Shares Outstanding - basic	8,228,980	8,299,278
Diluted income per share	\$ 0.00	\$ 0.09
Weighted Average Common Shares Outstanding - diluted	8,281,841	8,488,042

The accompanying notes in our Quarterly Report on Form 10-Q for the period ended January 2, 2022 filed with the SEC on February 14, 2022 are an integral part of these

financial statements.

Optex Systems Holdings, Inc. Condensed Consolidated Balance Sheets

	(Thousands, except share and per share data)	
	January 2, 2022	October 3, 2021
	(Unaudited)	
ASSETS		
Cash and Cash Equivalents	\$ 5,285	\$ 3,900
Accounts Receivable, Net	2,010	3,183
Inventory, Net	7,919	7,583
Prepaid Expenses	250	262
Current Assets	15,464	14,928
Property and Equipment, Net	1,035	1,017
Other Assets		
Deferred Tax Asset	1,302	1,288
Right-of-use Asset	3,531	3,599
Security Deposits	23	23
Other Assets	4,856	4,910
Total Assets	\$ 21,355	\$ 20,855
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 1,018	\$ 551
Operating Lease Liability	579	528
Accrued Expenses	840	851
Accrued Warranty Costs	122	78
Current Liabilities	2,559	2,008
Operating Lease Liability, net of current portion	3,070	3,133
Total Liabilities	5,629	5,141
Commitments and Contingencies		
Stockholders' Equity		
Common Stock - (\$0.001 par, 2,000,000,000 authorized, 8,546,920 and 8,523,704 shares issued, and 8,474,127 and 8,488,149 outstanding, respectively)	9	9
Treasury Stock (at cost, 72,793 and 35,555 shares held, respectively)	(143)	(69)
Additional Paid in capital	25,809	25,752
Accumulated Deficit	(9,949)	(9,978)
Stockholders' Equity	15,726	15,714
Total Liabilities and Stockholders' Equity	\$ 21,355	\$ 20,855

The accompanying notes in our Quarterly Report on Form 10-Q for the period ended January 2, 2022 filed with the SEC on February 14, 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 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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