May 14, 2019

Optex Systems Holdings, Inc. Announces Second Quarter 2019 Financial Highlights

RICHARDSON, TX / ACCESSWIRE / May 14, 2019 /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 second quarter period ended March 31, 2019 financial results.

Optex Systems Holdings, Inc. is excited to report on our 10Q performance for the three and six months ended March 31, 2019. During the periods, we have experienced significant growth in revenue, gross margin, operating profit and adjusted earnings before income taxes, depreciation and amortization (EBITDA) as compared to the prior year. During the three and six months ended March 31, 2019, we experienced product revenue growth of 55.8% and 39.2% and improved gross margin percentages of 6.1% and 3.8%, respectively, over the three and six months ended April 1, 2018.

Our key performance measures for the three and six month periods are summarized below.

Key Performance Measures (Thousands)

	Three months ended			Six months ended		
Metric	**March 31, 2019**	**April 1, 2018**	**% Change**	**March 31, 2019**	**April 1, 2018**	**% Change**
Revenue	$ 7,088	$ 4,550	55.8	$ 12,979	$ 9,327	39.2
Gross Margin %	27.9%	21.8%	6.1	26.4%	22.6%	3.8
Operating Income	$ 1,182	$ 207	471.0	$ 1,881	$ 550	242.0
Loss (Gain) on Change in Fair Value of Warrants	$ 1,932	$ (2,350)	(182.2)	$ 547	$ (2,006)	(127.3)
Net Income Applicable to Common Shareholders	$ (973)	$ 1,723	(156.5)	$ 704	$ 1,665	(57.7)
Adjusted EBITDA	$ 1,296	$ 331	291.5	$ 2,123	$ 807	163.1

Revenue growth was primarily concentrated in our Optex-Richardson segment, which represents a 100.2% increase over the prior year second quarter and a 69.9% increase for the six month period. The Applied Optics Center realized a 9.5% and 3.8% increase in revenue during the three and six months ended March 31, 2019 as compared to the prior year periods. Revenue growth for both segments is primarily driven by increased defense spending on our periscopes, Applied Optics Center laser filters and other product lines. Gross margin performance improvements were driven by revenue shifts from our less profitable commercial products toward higher margin military laser filters at our Applied Optics Center segment, and favorable changes in the "fixed" manufacturing overhead costs as a percentage of the significantly increased revenue at the Optex Richardson segment.

	(Millions)				
	Six months ended			Period ended	
	March 31, 2019	April 1, 2018	% Change	September 30, 2018	% Change
Backlog as of period end	$ 25.8	$ 18.6	38.7	$ 23.3	10.7
New Orders	$ 15.2	$ 12.2	24.6		

We recognized a loss on the change in fair value of warrants of $1.9 and $0.5 million during the three and six months ended March 31, 2019, as compared to a gain of ($2.4) million and ($2.0) million in the prior year three and six month periods. The loss during the current three and six month periods is primarily driven by an increase in the stock price from $1.71 as of September 30, 2018 and $1.31 as of December 31, 2018 to $2.00 as of March 31, 2019. The prior year gain in fair value of warrants is attributable to a change in accounting estimate on the warrant liability of our outstanding warrants to incorporate new market information into the valuation model related to the volatility of the stock prices and OTC market trading data. Fair value gains and losses are non-cash "other income and expense" adjustments driven by changes in fair market value of our outstanding warrants and are unrelated to our core business operating performance, as such, the amounts have been excluded from our adjusted EBITDA presented below.

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 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. Adjusted EBITDA is a financial measure not required by, or presented in accordance with U.S. generally accepted accounting principles ("GAAP").

Our adjusted EBITDA increased by $1.0 million to $1.3 million during the three months ended March 31, 2019 as compared $0.3 million during the three months ended April 1, 2018. For the six months ended March 31, 2019, our adjusted EBITDA increased by $1.3 million to $2.1 million as compared to $0.8 million during the six months ended April 1, 2018. EBITDA improvements are directly correlated with significant increases in revenue, changes in product mix and improvements in our gross margins during the three and six month periods over the prior year period performance.

The table below summarizes our three month operating results for periods ended March 31, 2019 and April 1, 2018, 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 to have a "complete picture" of our overall performance.

	(Thousands)			
	Three months ending		Six months ending	
	March 31, 2019	April 1, 2018	March 31, 2019	April 1, 2018
Net Income (Loss) (GAAP)	$ (973)	$ 2,631	$ 1,052	$ 2,536
Add:				
(Gain) Loss on Change in Fair Value of Warrants	1,932	(2,350)	547	(2,006)
Federal Income Tax Expense (Benefit) - Current	217	(83)	270	8
Depreciation	84	79	169	161
Stock Compensation	22	37	58	81
Royalty License Amortization	8	8	15	15
Interest Expense	6	9	12	12
Adjusted EBITDA - Non GAAP	**$ 1,296**	**$ 331**	**$ 2,123**	**$ 807**

We ended the six month period with working capital of $10.2 million and $1.6 million in cash and cash equivalents as compared to working capital of $8.5 million and $1.1 million in cash and cash equivalents as of the year ended September 30, 2018.

During the three months ended March 31, 2019, we recorded a net loss applicable to common shareholders of ($1.0) million as compared to net a net income applicable to common shareholders of $1.7 million during the three months ended April 1, 2018. The decrease in net income of ($2.7) million is primarily attributable to increased operating income of $1.0 million, changes in the gain on the fair value of warrant liabilities of ($4.3) million, increased federal income tax expenses of ($0.3) million, and changes in the dividends declared and deemed dividends on participating securities of $0.9 million between the respective periods. During the six months ended March 31, 2019, we recorded a net income applicable to common shareholders of $0.7 million as compared to net income applicable to common shareholders of $1.7 million during the six months ended April 1, 2018. The decrease in net income of ($1.0) million is primarily attributable to increased operating income of $1.3 million offset by the increase in the fair value of warrant liability of ($2.5) million, increased federal income tax expense of ($0.3) million and changes in declared and deemed dividends on participating securities of $0.5 million.

Based on increased backlog and orders during the first half of fiscal year 2019, Optex Systems Holdings, Inc. anticipates continued strong performance for the remaining six months of the current fiscal year as compared to the prior year performance. We anticipate revenue for our military products to continue at the elevated level with corresponding increases in gross margin, profitability and EBITDA to continue into the fiscal year 2020.

Danny Schoening, CEO of Optex Systems Holdings, Inc., commented, "We are extremely pleased with our second quarter performance and continue to be optimistic about the industry and overall defense related spending. We continue to see efficiency gains in our factories and our position within the market strengthen. Our backlog remains strong and we continue to see increased revenue, increased gross margin, and increased earnings."

Highlights of the unaudited Condensed Consolidated and Segment Results of Operations have been prepared in accordance with U.S. generally accepted accounting principles (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 the Form 10-Q for the three and six months ended March 31, 2019 filed with the SEC on May 13, 2019 and Form 10-K for the annual period ended September 30, 2018 filed with the SEC on December 20, 2018.

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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