

December 17, 2020



# Optex Systems Holdings, Inc. Announces Fiscal Year 2020 Financial Highlights

**RICHARDSON, TX / ACCESSWIRE / December 17, 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 twelve month period ended September 27, 2020.

Danny Schoening, CEO of Optex Systems Holdings, Inc., commented, "The fourth quarter was a strong finish for Optex in our fiscal 2020. We were able to ship the majority of the volume against contracts which were long lead time items providing improved operating cash flow and decreasing our overall inventory. We enter 2021 with an extremely strong balance sheet and anticipate to add to our backlog as the new National Defense Spending Act is approved in the coming weeks. We believe the decrease in orders is simply a timing delay and not indicative to any long-term trends in the business. We also continue to believe in the long-term prospects of the business and have accordingly repurchased 276,141 shares through December 10, 2020 pursuant to the previous announced repurchase plan."

Our year ended September 27, 2020 revenue increased over our prior year by 5.5% and our fourth quarter revenue increased over our prior year by 16.2%. Our three month and twelve-month gross margin for the period ended September 27, 2020 decreased by \$0.2 million, or 13.5% and 2.6%, respectively, from the prior three and twelve-month periods. The lower gross margin is primarily driven by changes in revenue mix between the periods, combined with increases in manufacturing overhead spending. Operating income for the three and twelve-month periods ended September 27, 2020 decreased by \$0.3 million from the prior year periods on lower gross margin and higher general and administrative spending.

As of September 27, 2020, Optex Systems Holdings had working capital of \$14.3 million, as compared to \$11.7 million as of September 29, 2019. During the twelve months, we generated operating cash flow of \$3.9 million, and spent \$200 thousand for the purchase of 105,733 shares against our previously announced stock repurchase plan. We ended fiscal year 2020 with a strong cash balance of \$4.7 million as compared to \$1.1 million as of fiscal year end 2019. At September 27, 2020, the Company had an outstanding payable balance of \$0.4 million against our working line of credit. The line of credit allows for borrowing up to a maximum of \$2.0 million. As of September 27, 2020, our outstanding accounts receivable was \$3.0 million.

Our key performance measures for the three and twelve months ended September 27, 2020 and September 30, 2019 are summarized below.

(Thousands)

**Three months ended**

**Twelve months ended**

<b>Metric</b>	<b>September 27, 2020</b>	<b>September 29, 2019</b>	<b>% Change</b>	<b>September 27, 2020</b>	<b>September 29, 2019</b>	<b>% Chan</b>
Revenue	\$ 7,208	\$ 6,205	16.2	\$ 25,890	\$ 24,530	10.6
Gross Margin	\$ 1,519	\$ 1,757	(13.5)	\$ 6,088	\$ 6,253	(2.6)
Gross Margin %	21.1%	28.3%	(25.4)	23.5%	25.5%	(8.6)
Operating Income	\$ 757	\$ 1,051	(28.0)	\$ 2,883	\$ 3,197	(10.1)
Gain (Loss) on Change Fair Value of Warrants	\$ (4)	\$ 1,809	(100.2)	\$ (508)	\$ 1,344	(133.2)
Net Income (Loss) Applicable to Common Shareholders	\$ 439	\$ 2,848	(84.6)	\$ 1,227	\$ 3,800	(67.8)
Adjusted EBITDA (non-GAAP)	\$ 897	\$ 1,172	(23.5)	\$ 3,328	\$ 3,680	(9.3)

Backlog as of September 27, 2020 was \$16.3 million as compared to a backlog of \$24.6 million as of September 29, 2019, representing a decrease of 33.7%. During fiscal year 2020, Optex Systems Holdings received new orders totaling \$17.6 million as compared to new orders of \$25.8 million during the prior year. We attribute the \$8.3 million decrease in orders to the timing of contract awards, IDIQ task order releases and purchase orders from our customers, combined with significant shipments against some of our long-term contracts during the 2020 fiscal year

During the fiscal year 2020, we have experienced significant reductions in new orders and ending customer backlog across all but one of our product lines. 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 some shifting in defense spending budget allocations in US military sales and FMS away from Army ground system vehicles toward other military agency applications. Due to the pandemic, we have experienced a significant slowdown in the U.S. government procurement process increasing the cycle time from contract bid proposal requests to final contract award by three to six months. We believe many of the delays are process driven as government agencies adapt to new remote work environments, combined with constraints created by travel restrictions, impeding product testing, inspection and overall program management coordination. 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 supplier issues. Due to the significant level of uncertainty surrounding the pandemic and its impact to our customers and the defense supply chain, we are unable to ascertain the impact further delays in contract awards and customer orders may have on our total fiscal year 2021 revenues. We are currently anticipating a reduction of

20-25% in revenue volume during the first six months of fiscal year 2021, as compared to the first six months of fiscal year 2020. Continued delays in customer orders over the next three to six months could negatively impact our total fiscal year 2021 revenue and profitability. We are currently reviewing cost reduction strategies for implementation during the next sixty days to minimize the impact of a sustained delay in customer orders to program revenues beyond the first quarter of fiscal year 2021.

	<b>September 27, 2020</b>	<b>September 29, 2019</b>	<b>% Change</b>
Backlog as of period end (millions)	\$16.3	\$24.6	(33.7)

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 and twelve-month operating results for periods ended September 27, 2020 and September 29, 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.

	<b>(Thousands)</b>			
	<b>Three months ended</b>		<b>Twelve months ended</b>	
	<b>September 27, 2020</b>	<b>September 29, 2019</b>	<b>September 27, 2020</b>	<b>September 29, 2019</b>
Net Income - (GAAP)	\$ 654	\$ 4,240	\$ 1,825	\$ 5,668
<i>Add:</i>				
Loss (Gain) on Change in Fair Value of Warrants	4	(1,809)	508	(1,344)
Federal Income Tax Expense (Benefit)	96	(1,386)	531	(1,150)
Depreciation	62	85	248	340
Stock Compensation	78	29	197	113
Royalty License Amortization	-	7	-	30
Interest Expense	3	6	19	23
<b>Adjusted EBITDA - Non-GAAP</b>	<b>\$ 897</b>	<b>\$ 1,172</b>	<b>\$ 3,328</b>	<b>\$ 3,680</b>

Our adjusted EBITDA decreased by \$0.4 million to \$3.3 million during the twelve months ended September 27, 2020 as compared \$3.7 million during the twelve months ended September 29, 2019. The decrease in EBITDA is primarily driven by a decrease in operating profit of \$0.3 million and changes in interest, depreciation and amortization of \$0.1 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 Annual Report on Form 10-K for the year ended September 27, 2020 filed with the SEC on December 17, 2020.

**Optex Systems Holdings, Inc.**

**Condensed Consolidated Statements of Operations**

	(Thousands, except share and per share data)	
	<u>Twelve months ended</u>	
	<u>September 27, 2020</u>	<u>September 29, 2019</u>
<b>Revenue</b>	\$ 25,890	\$ 24,530
Cost of Sales	19,802	18,277
<b>Gross Margin</b>	<u>6,088</u>	<u>6,253</u>
<b>General and Administrative Expense</b>	3,205	3,056
<b>Operating Income</b>	<u>2,883</u>	<u>3,197</u>
(Loss) Gain on Change in Fair Value of Warrants	(508)	1,344
Interest Expense	(19)	(23)
<b>Other (Expense) Income</b>	<u>(527)</u>	<u>1,321</u>
<b>Income Before Taxes</b>	<u>2,356</u>	<u>4,518</u>
Income Tax Expense (Benefit), net	531	(1,150)
<b>Net Income</b>	<u>\$ 1,825</u>	<u>\$ 5,668</u>
Deemed dividends on participating securities	(598)	(1,868)
<b>Net income applicable to common shareholders</b>	<u>\$ 1,227</u>	<u>\$ 3,800</u>
<b>Basic income per share</b>	<u>\$ 0.14</u>	<u>\$ 0.45</u>
<b>Weighted Average Common Shares Outstanding - basic</b>	<u>8,464,572</u>	<u>8,388,794</u>
<b>Diluted income per share</b>	<u>\$ 0.14</u>	<u>\$ 0.45</u>
<b>Weighted Average Common Shares Outstanding - diluted</b>	<u>8,589,919</u>	<u>8,492,884</u>

*The accompanying notes in our A Report on Form 10-K for the year ended September 27, 2020 filed with the SEC on December 17, 2020 are an integral part of these financial statements.*

## Condensed Consolidated Balance Sheets

(Thousands, except  
share and per share  
data)

**September**    **September**  
**27, 2020**      **29, 2019**

### ASSETS

Cash and Cash Equivalents	\$ 4,700	\$ 1,068
Accounts Receivable, Net	2,953	3,066
Inventory, Net	8,791	10,535
Prepaid Expenses	229	348
<b>Current Assets</b>	<b>16,673</b>	<b>15,017</b>
<b>Property and Equipment, Net</b>	<b>1,006</b>	<b>1,102</b>
<b>Other Assets</b>		
Deferred Tax Asset	1,227	1,414
Right-of-use Asset	1,416	-
Security Deposits	23	23
<b>Other Assets</b>	<b>2,666</b>	<b>1,437</b>
<b>Total Assets</b>	<b>\$ 20,345</b>	<b>\$ 17,556</b>

### LIABILITIES AND STOCKHOLDERS' EQUITY

#### Current Liabilities

Accounts Payable	\$ 833	\$ 1,833
Operating Lease Liability	417	-
Accrued Expenses	1,077	1,180
Warrant Liability	2,544	-
Accrued Warranty Costs	83	46
Credit Facility	-	250
Customer Advance Deposits	1	3

#### Current Liabilities

Credit Facility - Long Term	377	-
Operating Lease Liability, net of current portion	1,037	-
Warrant Liability - Long Term	-	2,036
<b>Total Liabilities</b>	<b>6,369</b>	<b>5,348</b>

#### 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 8,690,136 and 8,436,422 outstanding, respectively)	9	8
Treasury Stock (at cost, 105,733 shares and zero shares held, respectively)	(200)	-
Additional Paid in capital	26,276	26,134
Accumulated Deficit	(12,109)	(13,934)

<b>Stockholders' Equity</b>	<b>13,976</b>	<b>12,208</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 20,345</b>	<b>\$ 17,556</b>

***The accompanying notes in our A Report on Form 10-K for the year ended September 27, 2020 filed with the SEC on December 17, 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](http://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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