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

RICHARDSON, TX / ACCESSWIRE / August 12, 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 third quarter which ended June 30, 2019.

Optex Systems Holdings, Inc. is reporting performance for the three and nine months ended June 30, 2019.

- Year over year, nine month revenue has increased by \$2.9 million, or 18.6%.
- Year over year, nine month gross margin, operating profit and EBITDA has increased by \$0.9 million, with higher revenue and an improved gross margin percentage of 1.2%.
- Backlog as of June 30, 2019 has increased 35.4% and 13.3%, to \$26.4 million as compared to \$19.4 million as of July 1, 2018 and \$23.3 million as of September 30, 2018, respectively.
- We anticipate a strong 2019 fourth quarter, exceeding both the 2018 fourth quarter and the 2019 third quarter levels, with higher revenue for military products at both the Optex Richardson and Applied Optics Center segments.

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

Key Performance Measures (Thousands)

Metric	Three months ended			Nine months ended		
	June 30, 2019	July 1, 2018	% Change	June 30, 2019	July 1, 2018	% Change
Revenue	\$ 5,347	\$ 6,124	(12.7)	\$ 18,325	\$ 15,451	18.6
Gross Margin %	20.1 %	24.4 %	(4.3)	24.5 %	23.3 %	1.2
Operating Income	\$ 265	\$ 723	(63.3)	\$ 2,146	\$ 1,273	68.6
Loss (Gain) on Change Fair Value of Warrants	\$ (81)	\$ (4)		\$ 465	\$ (2,010)	
Net Income Applicable to Common Shareholders	\$ 252	\$ 389	(35.2)	\$ 957	\$ 2,066	(53.7)
Adjusted EBITDA	\$ 385	\$ 847	(54.5)	\$ 2,508	\$ 1,653	51.7

	(Millions)			Period ended	
	June 30, 2019	July 1, 2018	% Change	September 30, 2018	% Change
Backlog as of period end	\$ 26.4	\$ 19.5	35.4	\$ 23.3	13.3
New Orders	\$ 21.4	\$ 19.2	11.5		

Revenue during the three months ending June 30, 2019 were below the prior year period by (\$0.8) million, or (12.7%) primarily due to completion of the Optex Richardson DDAN sighting systems program during the first quarter of 2019, combined with a decrease in commercial optical assembly revenues at the Applied Optics Center from the prior year three month period. We continue to see growth in other military programs offsetting much of the decline in sighting systems and commercial optical assemblies across both segments. During the nine month period, our revenues have grown significantly, by \$2.9 million, or 18.6%, driven by increased domestic military sales concentrated in our Optex-Richardson segment. During the three months ending June 30, 2019, our gross margin percentage declined by (4.3%) to 20.1% from 24.4%, primarily due to changes in product mix, away from the higher margin sighting systems in the prior year quarter, combined with higher periscope production costs in the current year quarter on our periscope line due to supplier issues, increased rework and labor inefficiencies. Our nine month gross margin has improved over the prior nine year nine month performance by 1.2% and is driven by revenue shifts from our less profitable commercial products toward higher margin military laser filters combined with production efficiency improvements at our Applied Optics Center segment.

We recognized a gain on the change in fair value of warrants of (\$0.1) million and a loss of \$0.5 million during the three and nine months ended June 30, 2019, as compared to a gain

of (\$0) million and (\$2.0) million in the prior year three and nine month periods. The change in fair value during the current three and nine month periods is primarily driven by changes in the stock price from \$1.71 as of September 30, 2018 to \$2.06 as of June 30, 2019, combined with fluctuations in stock volatility, U.S Treasury interest rates and the remaining warrant term. 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 decreased by (\$0.4) million to \$0.4 million during the three months ended June 30, 2019 as compared \$0.8 million during the three months ended July 1, 2018 on lower revenue and gross margin. For the nine months ended June 30, 2019, our adjusted EBITDA increased by \$0.8 million to \$2.5 million as compared as compared \$1.7 million during the nine months ended July 1, 2018. EBITDA improvements for the nine months are directly correlated with significant increases in revenue, changes in product mix and improvements in our gross margins during the three and nine month periods over the prior year period performance.

The table below summarizes our three month operating results for periods ended June 30, 2019 and July 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		Nine months ending	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Net Income (Loss) (GAAP)	\$ 376	\$ 586	\$ 1,428	\$ 3,123
Add:				
Loss (Gain) on Change in Fair Value of Warrants	(81)	(4)	465	(2,010)
Federal Income Tax Expense (Benefit) - Current	(35)	137	236	144
Depreciation	86	80	255	241
Stock Compensation	26	36	84	117
Royalty License Amortization	8	8	23	22
Interest Expense	5	4	17	16
Adjusted EBITDA - Non GAAP	\$ 385	\$ 847	\$ 2,508	\$ 1,653

We ended the nine month period with working capital of \$10.6 million and \$0.9 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 June 30, 2019, we recorded a net income applicable to common shareholders of \$0.25 million as compared to a net income applicable to common shareholders of \$0.39 million during the three months ended July 1, 2018. The decrease in net income of (\$0.14) million is primarily attributable to decreased operating income of (\$0.4) million, changes in the gain on the fair value of warrant liabilities of \$0.1 million, lower federal income tax expenses of \$0.2 million between the respective periods. During the nine months ended June 30, 2019, we recorded a net income applicable to common shareholders of \$1.0 million as compared to net income applicable to common shareholders of \$2.1 million during the nine months ended July 1, 2018. The decrease in net income of (\$1.1) million is primarily attributable to increased operating income of \$0.9 million offset by the increase in the fair value of warrant liability of (\$2.5) million, increased federal income taxes of (\$0.1) million and changes in declared and deemed dividends on participating securities of \$0.6 million.

Based on increased backlog and orders during the first half of fiscal year 2019, Optex Systems Holdings, Inc. anticipates strong performance for the remaining three months of the current fiscal year as compared to the prior year fourth quarter and the current year third quarter 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 cumulative performance for the first nine months and remain optimistic about the industry and overall defense related spending. Internally, we continue to work supply chain and labor issues like our peers in the industry while we adjust to the growing demand. We continue to see efficiency gains in our Applied Optics Center, and are focused on initiatives to improve supplier performance and production efficiencies at our Optex Richardson segment. We continue to see our position within the market strengthen and our backlog remains strong as 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 nine months ended June 30, 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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