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Optex Systems Holdings, Inc. Announces Period Ended December 27, 2020 Financial Highlights

RICHARDSON, TX / ACCESSWIRE / February 12, 2021 /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 three-month period ended December 27, 2020.

During the three months ended December 27, 2020 revenue decreased from our prior year period by \$1.4 million, or 24.1%, and gross margin decreased from the prior year period by \$0.6 million, or 43.1%. Operating income for the three-month period ended December 27, 2020 decreased by \$0.6 million, to \$0.1 million, from \$0.7 million during the prior year period.

During the period, we experienced a decline in revenue primarily based upon lower beginning year customer order backlog driven by a reduction in customer orders received during the fiscal year ended September 27, 2020. The decrease in gross margin and operating profit during the three-month period are primarily attributable to lower revenue, changes in product mix, and unfavorable manufacturing overhead on reduced production volume. Our operating segments have substantial fixed manufacturing costs that are not easily adjusted as production levels decline. We have implemented several cost-saving initiatives during the first and second quarters of fiscal year 2021, including reductions in force and employee compensation, but we do not expect to mitigate the impact of the first half revenue reduction on the operating gross margin for the fiscal year. We anticipate the margins will improve as revenues increase and the impact of the first half cost reductions are fully realized.

As of December 27, 2020, the Company had working capital of \$12.5 million, as compared to \$11.7 million as of September 27, 2020. During the three months ended December 27, 2020, we generated operating cash flow of \$0.4 million, and spent \$0.4 million for the purchase of 208,592 shares of our common stock against our previously announced stock repurchase plan. We ended the quarter with a strong cash balance of \$4.6 million as compared to \$4.7 million as of the fiscal year end 2020. As of December 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 December 27, 2020, our outstanding accounts receivable was \$2.1 million.

Danny Schoening, CEO of Optex Systems Holdings, Inc., commented, "We continue to operate within the business parameters set by the current conditions of Covid-19 and virtual-only meetings with our customer base. Backlog is still an issue, but recent orders at the AOC Division and the recent IDIQ periscope award at Optex are favorable indicators that our run rates will return to 2020 levels. We are especially excited about new Laser Filter Units

bookings at AOC and the additional product line offerings this presents."

Our key performance measures for the three months ended December 27, 2020 and December 29, 2019 are summarized below.

(Thousands)			
Three months ended			
Metric	December 27, 2020	December 29, 2019	% Change
Revenue	\$ 4,471	\$ 5,887	(24.1)
Gross Margin	\$ 835	\$ 1,467	(43.1)
Gross Margin %	18.7%	24.9%	(24.9)
Operating Income	\$ 79	\$ 718	(89.0)
Gain (Loss) on Change Fair Value of Warrants	\$ 1,027	\$ (1,251)	(182.1)
Net Income (Loss) Applicable to Common Shareholders	\$ 726	\$ (679)	(206.9)
Adjusted EBITDA (non-GAAP)	\$ 199	\$ 810	(75.4)

During the fiscal year 2020, we 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 25-30% in revenue volume during the first six months of fiscal year 2021, as compared to the first six months of fiscal year 2020. We have experienced a recent increase in proposal requests and anticipate an increase in orders over the next six to nine months, however the timing and nature of new orders in the near term cannot be determined. Any continued delays in customer orders over the next three to six months could further impact our total fiscal year 2021 revenue and profitability during the second half. We are reviewing additional cost reductions during the next sixty to ninety days as required to further minimize the impact of any sustained delays in customer orders beyond the first half of fiscal year 2021.

Backlog as of December 27, 2020 was \$15.0 million as compared to a backlog of \$16.3 million as of September 27, 2020, representing a decrease of 8.0%. During the three-months

ended December 27, 2020 and December 29, 2019, Optex Systems Holdings received new orders totaling \$3.2 million. Since December 27, 2020, we have booked an additional \$2.9 in new orders for optical assemblies and coated filters, including \$0.5 million in new business from a new customer for delivery in 2021 and beyond. On January 11, 2021, the Company announced a contract for Laser Protected Periscopes for a base period of three years plus two one-year option years, not to exceed \$14.4 million pursuant to an Indefinite Delivery - Indefinite Quantity (IDIQ) contract. We anticipate additional periscope contracts in addition to task order awards against our existing nine active IDIQ contracts for delivery in 2021 and beyond.

(millions)

	<u>December 27, 2020</u>	<u>September 27, 2020</u>	<u>% Change</u>
Backlog as of period end	\$ 15.0	\$ 16.3	(8.0)

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-month operating results for periods ended December 27, 2020 and December 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 information that is useful in evaluating our financial results across periods.

	<u>Three months ended</u>	
	<u>December 27, 2020</u>	<u>December 29, 2019</u>
Net Income (Loss) - (GAAP)	\$ 1,087	\$ (679)
Add:		
(Gain) Loss on Change in Fair Value of Warrants	(1,027)	1,251
Federal Income Tax Expense (Benefit)	16	141
Depreciation	63	66
Stock Compensation	57	26
Interest Expense	3	5
Adjusted EBITDA - Non-GAAP	\$ 199	\$ 810

Our adjusted EBITDA decreased by \$0.6 million, to \$0.2 million during the three-months ended December 27, 2020, as compared \$0.8 million during the three-months ended December 29, 2019. The decrease in EBITDA is primarily driven by decreased revenue and gross margin.

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 December 27, 2020 filed with the SEC on February 12, 2021, and 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)	
	Three months ended	
	December 27, 2020	December 29, 2019
Revenue	\$ 4,471	\$ 5,887
Cost of Sales	3,636	4,420
Gross Margin	835	1,467
General and Administrative Expense	756	749
Operating Income	79	718
Gain (Loss) on Change in Fair Value of Warrants	1,027	(1,251)
Interest Expense	(3)	(5)
Other Income (Expense)	1,024	(1,256)
Income (Loss) Before Taxes	1,103	(538)
Income Tax Expense, net	\$ 16	\$ 141
Net Income (Loss)	\$ 1,087	\$ (679)
Deemed dividends on participating securities	(361)	-
Net income (loss) applicable to common shareholders	\$ 726	\$ (679)
Basic income (loss) per share	\$ 0.09	\$ (0.08)
Weighted Average Common Shares Outstanding - basic	8,299,278	8,436,422
Diluted income (loss) per share	\$ 0.09	\$ (0.08)
Weighted Average Common Shares Outstanding - diluted	8,488,042	8,436,422

The accompanying notes in our Quarterly Report on Form 10-Q for the period ended December 27, 2020 filed with the SEC on February 12, 2021 are an integral part of these financial statements.

Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

		(Thousands, except share and per share data)	
		December 27, 2020	September 27, 2020
		(Unaudited)	
ASSETS			
Cash and Cash Equivalents	\$	4,627	\$ 4,700
Accounts Receivable, Net		2,138	2,953
Inventory, Net		9,348	8,791
Prepaid Expenses		167	229
Current Assets		16,280	16,673
Property and Equipment, Net		1,024	1,006
Other Assets			
Deferred Tax Asset		1,211	1,227
Right-of-use Asset		1,312	1,416
Security Deposits		23	23
Other Assets		2,546	2,666
Total Assets	\$	19,850	\$ 20,345
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable	\$	844	\$ 833
Operating Lease Liability		345	417
Accrued Expenses		1,022	1,077
Warrant Liability		1,517	2,544
Accrued Warranty Costs		49	83
Customer Advance Deposits		-	1
Current Liabilities		3,777	4,955
Other Liabilities			
Credit Facility - Long Term		377	377
Operating Lease Liability, net of current portion		991	1,037
Other Liabilities		1,368	1,414
Total Liabilities		5,145	6,369
Commitments and Contingencies			
Stockholders' Equity			
Common Stock - (\$0.001 par, 2,000,000,000 authorized, 8,795,869 and 8,795,869 shares issued, and 8,481,544 and 8,690,136 outstanding, respectively)		9	9
Treasury Stock (at cost, 314,325 shares and 105,733 shares held, respectively)		(615)	(200)
Additional Paid in capital		26,333	26,276
Accumulated Deficit		(11,022)	(12,109)
Stockholders' Equity		14,705	13,976
Total Liabilities and Stockholders' Equity	\$	19,850	\$ 20,345

The accompanying notes in our Quarterly Report on Form 10-Q for the period ended December 27, 2020 filed with the SEC on February 12, 2021 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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