August 13, 2018

Optex Systems Holdings, Inc. Announces Third Quarter 2018 Financial Highlights

RICHARDSON, Texas, Aug. 13, 2018 (GLOBE NEWSWIRE) -- 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 from its second quarter 2018 financial results.

Optex Systems Holdings, Inc. is excited to report on our 10Q performance for the period ending July 1, 2018. During the three and nine months ending July 1, 2018, we have experienced significant revenue growth of 41.9% and 30.3%, improvements in gross margin percentages of 4.2% and 3.0% and reductions in our general and administrative expenses of 5.8% and 6.9%, respectively, as compared to the three and nine months ending July 2, 2017. During the first three quarters of fiscal year 2018, our adjusted EBITDA is up 449.2% from the prior year level and our backlog is up 24.2% from October 1, 2017. Our key performance measures for the three and nine month periods are summarized below.

- Backlog as of July 1, 2018 was $19.5 million as compared to a backlog of $15.7 million as of October 1, 2017, representing an increase of $3.8 million or 24.2%. During the nine months ending July 1, 2018, Optex Systems Holdings booked $19.2 million in new orders.

- Revenue increased by $1.8 million and $3.6 million during the three and nine months ending July 1, 2018, to $6.1 million and $15.5 million, as compared to $4.3 million and $11.9 million during the three and nine months ending July 2, 2017.
    - Revenue growth of 41.9% for the current quarter is driven by increases of $1.0 million, or 32.3%, in the Optex Systems Richardson segment in support of sighting systems and periscope products, and $0.8 million, or 66.7%, in the Applied Optics Center segment for military coated filters and other products.
    - Year to date revenue growth of 30.3% over the prior year nine months is attributable to the Optex Systems Richardson segment of $1.6 million, or 21.3%, for increases in sighting system and periscope products and to the Applied Optics Center segment of $2.0 million, or 45.5%, for increases in military filters, commercial optical assemblies and other products.

- Gross margin, as a percentage of revenue, increased to 24.4%, from 20.2%, and to 23.3%, from 20.3%, during the three and nine months ending July 1, 2018 as compared to the prior year periods. We attribute the favorable gross margin performance to revenue growth, cost efficiencies, pricing improvements and changes in product mix between the respective periods.

- During the three and nine months ended July 1, 2018, we recorded operating income of $0.7 million and $1.3 million, as compared to operating income of $0.1 million and an operating loss of ($0.1) million for the three and nine months ended July 2, 2017. Higher operating profits are directly related to the revenue growth, favorable gross margin performance and reduced general and administrative spending.

- We recognized a gain on the change in fair value of warrants of $0.04 million, and $2.0 million during the three and nine months ending July 1, 2018, as compared to a loss of ($1.0) million and ($0.7) million in the prior year periods. The current year gain on fair value is attributable to a change in accounting estimate that occurred during the second quarter ending April 1, 2018 for revisions to the volatility input rate assumed in the fair value measurement of our outstanding 4,125,200 warrants. Fair value gains and losses are non-cash "other income and expense" adjustments driven by changes in fair market value of our warrant liability and are unrelated to our core business operating performance; as such, the amounts have been excluded from our adjusted EBITDA presented below.

- Net income applicable to common shareholders was $0.6 million and $3.1 million during the three and nine months ended July 1, 2018, as compared to a net loss of ($1.0) million and ($0.8) million during the prior three and nine month periods. The net income increase is driven by the combination of increased operating performance and the non-cash valuation gain associated with the warrants.

- Our adjusted EBITDA increased by $0.6 million to $0.8 million and by $1.3 million to $1.7 million during the three and nine months ending July 1, 2018, as compared to $0.2 million and $0.4 million during the three and nine months ending July 2, 2017. 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," which 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").

  The table below summarizes our three and nine month operating results for periods ending July 1, 2018 and July 2, 2017, 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**

	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Net Income (Loss) Applicable to Common Shareholders (GAAP)	$ 586	$ (963)	$ 3,123	$ (758)
Add:				
(Gain) Loss on Change in Fair Value of Warrants	(4)	1,024	(2,010)	666
Federal Income Tax Expense - Current	137	-	144	-
Depreciation	80	86	241	253
Stock Compensation	36	43	117	171
Royalty License Amortization	8	8	22	22
Interest Expense	4	4	16	14
Adjusted EBITDA - Non GAAP	**$ 847**	**$ 202**	**$ 1,653**	**$ 368**

- We ended the quarter with working capital of $9.0 million and $1.6 million in cash and cash equivalents. During the nine months ending July 1, 2018, we generated over $1.0 million in operating cash and paid out dividends to our share and warrant holders of $0.8 million through July 19, 2018.

- We have repurchased 200,000 shares of common stock during the nine months ending July 1, 2018. On July 10, 2018, subsequent to the July 1, 2018 quarter end date, the board of directors approved an additional common share repurchase of 500,000 shares. During the fiscal year ending October 1, 2017, the Company repurchased 700,000 shares of common stock. All 1.4 million of the purchased common shares have been returned to the treasury.

Based on increased backlog and orders during the first nine months, Optex Systems Holdings, Inc. anticipates a strong performance for the fiscal year ending September 30, 2018 as compared to fiscal year 2017 performance. Increased customer demand and backlog levels paired with accelerated production and delivery rates for our both our military and commercial products, combined with increased gross margins and lower general and administrative spending, are projected to continue throughout the balance of the year and into the first half of fiscal year 2019.

Danny Schoening, CEO of Optex Systems Holdings, Inc. commented, “We continue to report increased revenue, increased gross margins, and increased earnings. The growing revenues have leveraged into higher factory efficiencies and the cost control programs have combined with these efficiencies to drive improved earnings. We continue to hold our shareholders, our customers, and our employees as our top priorities as we continue to strengthen the balance sheet.”

Highlights of the unaudited 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 quarterly period ended July 1, 2018 filed with the SEC on May 15, 2018.

ABOUT OPTEX SYSTEMS

Optex, which was founded in 1987, is a Richardson, Texas based ISO 9001:2008 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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