

September 6, 2019

*The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement via a Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain.*

**ProPhotonix Limited**  
("ProPhotonix" or "the Company")

**INTERIM RESULTS FOR THE HALF YEAR ENDED JUNE 30, 2019**

ProPhotonix Limited (London Stock Exchange - AIM: PPIX & PPIR, OTC: STKR), a high technology designer and manufacturer of LED illumination systems and laser diode modules, with operations in Ireland and the United Kingdom, today announces its unaudited interim results for the six months ended June 30, 2019.

**Financial Highlights**

- Revenue decreased 18.9% to \$7.2 million (H1-2018: \$8.8 million)
- Gross profit decreased 21.7% to \$2.7 million (H1-2018: \$3.4 million) mainly due to decreased revenue
- Operating loss (excluding stock compensation credit \$0.5 million) of \$0.6 million (H1-2018: \$0.1 million operating income, excluding stock compensation expense \$0.5 million)
- Net loss of \$0.2 million (H1-2018: \$0.5 million)
- Adjusted EBITDA of \$(0.5) million (H1-2018: \$0.2 million). Please see the reconciliation of net loss to adjusted EBITDA below.
- Order bookings of \$7.5 million (H1-2018: \$9.0 million)
- Book-to-Bill ratio of 1.04 (H1-2018: 1.03)
- Percentage revenue by market sectors: 73% industrial, 23% medical and 4% security & defense (H1-2018: 81% industrial, 16% medical and 3% security & defense)
- Percentage revenue by geography: 40% Europe, 58% North America and 2% Rest of World (H1-2018: 56% Europe, 31% North America and 13% Rest of World)

**Tim Losik, President & CEO, commented:**

## **Financial**

"Revenues in the first half of 2019 were down 18.9% primarily due to a decrease in Laser & Diode product sales (including the decline of \$0.9 million from the largest customer due to a delay in a new product launch) partially offset by a small net increase in LED product sales. Gross profit margin fell to 37.2% compared with 38.6% for the same period in 2018, mainly due to a shift in product mix and under absorption of manufacturing overhead on lower sales. In the first half of 2019 we experienced an operating loss of \$0.1 million compared to operating loss of \$0.4 million in 2018. The operating loss was primarily a result of lower profit margins and continued investment to support future growth of the business, offset by a credit of stock compensation of \$0.5 million for 2019 (1H 2018 – expense \$0.5 million). During the first half, cost reduction measures were put in place to lower the cost structure by about \$0.3 million per annum.

The cash position of the Company has reduced due to operating losses incurred and will likely continue, though at a slower rate as the cost reduction measures take effect, through the balance of the year. The Directors are investigating securing new sources of capital as well as other strategic initiatives and options."

## **Trading update and Strategic Review**

"Decreased revenue has occurred in nearly half of 2018 customers offset by increases in about 25% of customers, albeit we take some reassurance that during the first half our largest laser customer and several large LED customers resumed and/or increased both the volume and value of orders placed with ProPhotonix. Overall however, the volume of orders were down 17% in the half despite these customers increasing orders, and continue to be sluggish early in the second half. Currently, we are not able to accurately estimate full year sales, but the Board currently envisage they will be no more than \$15.0 million.

"As noted above, we are now forecasting revenues in the second half will broadly approximate those achieved in the first half. Whilst we expect to see the financial benefit of the cost savings initiatives enacted in the first half, the Board believes the Company will continue to be loss making and is committed to strengthening the Group's balance sheet. The Board is therefore reviewing all funding and strategic options available, both to ensure the short-term working capital needs of the Company continue to be met, as well as maximizing shareholder value over the longer term."

## **Enquiries:**

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## Half Year 2019 Financial Results

Revenue for the half year ended June 30, 2019 was \$7.2 million, a decrease of 18.9% compared with \$8.8 million in the same period of 2018 primarily due to a decrease in Laser & Diode product sales (including the decline of \$0.9 million from the largest customer due to a delay in a new product launch) partially offset by a small net increase in LED product sales. Revenue by industry category shifted with medical increasing due to the commercialization of products for one customer which have been in development. The changes between industrial and defense relate to general shifts in the mix of business rather than any discernible trend. The Group's revenues are not geographically dependent and whilst additional sales were generated in the United States during the period, similar to the changes in mix of business there is no pertinent reason for this change in geographical revenue mix.

Gross profit was \$2.7 million, a decrease of 21.7% compared to \$3.4 million in the first half of 2018 from the decline in revenue. Gross profit margin fell to 37.2% compared with 38.6% for the same period in 2018, mainly due to a shift in product mix and under absorption of manufacturing overhead expenses.

Operating expenses totaled \$2.8 million versus \$3.8 million for the comparable period. Sales and marketing expenses decreased \$0.3 million to \$1.1 million primarily due to decreased stock compensation. General and administrative expenses decreased \$0.9 million to \$1.1 million primarily due to decreased stock compensation. Research and development expenses remained relatively flat compared with the prior year at \$0.6 million.

The reduced gross profit resulted in an operating loss of \$0.1 million (\$0.5 million loss excluding stock compensation credit), compared with an operating loss of \$0.4 million in the first half of 2018 (\$0.1 million income excluding stock compensation expense).

Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation and impairment charges) was a loss of \$0.5 million, as compared to a profit of \$0.2 million in the first half of 2018. Please see the reconciliation of net income to adjusted EBITDA below.

Net loss was \$0.2 million, as compared to \$0.5 million of net loss in the first half 2018.

Net assets decreased by \$1.4 million (13%) primarily attributable to net cash outflows of \$1.4 million. As of June 30, 2019, the Company held a net debt position of \$0.3 million versus a net cash position as of June 30, 2018 of \$0.4 million. As of June 30, 2019, the Company had \$0.1 million borrowing availability on its Sales Finance facility through Barclays Bank.

**PROPHOTONIX LIMITED**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
In thousands except share and per share data  
(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Revenue	\$ 7,165	\$ 8,839
Cost of sales	(4,497)	(5,431)
Gross profit	<b>2,668</b>	<b>3,408</b>
Operating expenses:		
Selling expenses	(1,075)	(1,363)
General and administrative	(1,117)	(2,063)
Research and development	(603)	(414)
Total operating expenses	<b>(2,795)</b>	<b>(3,840)</b>
Loss from operations	(127)	(432)
Other (expense) income, net	(16)	(54)
Interest expense	(55)	(21)
Amortization of debt discount and financing costs	(8)	-
Loss before income tax	<b>(206)</b>	<b>(507)</b>
Income tax	-	-
Net loss	<b>(206)</b>	<b>(507)</b>
Other comprehensive income:		
Foreign currency translation	73	(42)
Total comprehensive loss	<b>\$ (133)</b>	<b>\$ (549)</b>
Net loss per share:		
Basic net loss per share	<b>\$ (0.002)</b>	<b>\$ (0.005)</b>
Diluted net loss per share	<b>\$ (0.002)</b>	<b>\$ (0.005)</b>
Shares used in per share calculation – basic	93,075	93,000
Shares used in per share calculation – diluted	93,075	93,000

**FINANCIAL STATEMENTS**  
**PROPHOTONIX LIMITED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
In thousands except share and per share data  
(unaudited)

For the Periods Ended June 30, 2019 and 2018	2019	2018
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,615	\$ 3,033
Accounts receivable, less allowances of \$53 in 2019 and \$52 in 2018	3,120	3,159
Inventories	2,953	2,761
Prepaid expenses and other current assets	383	439
<b>Total current assets</b>	<b>8,071</b>	<b>9,392</b>
Net property, plant and equipment	597	738
Goodwill	402	413
Deferred tax asset	451	463
Other long-term assets	427	380
<b>Total assets</b>	<b>\$ 9,948</b>	<b>\$ 11,386</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Revolving credit facility	\$ 1,107	\$ 1,560
Current portion of long-term debt, net	197	181
Accounts payable	2,151	2,051
Accrued expenses	2,214	2,037
Current portion of capital lease	57	100
<b>Total current liabilities</b>	<b>5,726</b>	<b>5,929</b>
Long-term debt, net of debt acquisition charges	478	684
Long-term capital lease obligations, net of current portion	69	122
<b>Total liabilities</b>	<b>6,273</b>	<b>6,735</b>
<b>Stockholders' Equity:</b>		
Common stock, par value \$0.001; shares authorized 250,000,000 at June 30, 2019 and at June 30, 2018; 93,150,402 shares issued and outstanding at June 30, 2019 and 93,000,402 at June 30, 2018	93	93
Paid-in capital	113,579	113,531
Accumulated deficit	(110,952)	(109,945)
Accumulated other comprehensive income	955	972
<b>Total stockholders' equity</b>	<b>3,675</b>	<b>4,651</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,948</b>	<b>\$ 11,386</b>

**PROPHOTONIX LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
In thousands  
(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operations</b>		
Net loss	\$ (206)	\$ (507)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	(469)	559
Depreciation	103	91
Foreign exchange loss	13	32
Amortization of debt discount and financing costs	8	-
Provision for inventories	103	3
Provision for bad debts	5	38
Other change in assets and liabilities:		
Accounts receivable	(270)	(164)
Inventories	(672)	(561)
Prepaid expenses and other current assets	(96)	(199)
Accounts payable	371	469
Accrued expenses	887	284
Other assets and liabilities	(17)	(142)
<b>Net cash used in operating activities</b>	<b>(240)</b>	<b>(97)</b>
<b>Financing</b>		
Exercise of options and warrants	-	3
Net borrowing (repayment) of revolving credit facility	17	345
Capital lease	(30)	40
Debt issuance costs	-	(42)
Net borrowing (principal repayment) of long-term debt	(120)	865
<b>Net cash (used in) provided by financing activities</b>	<b>(133)</b>	<b>1,211</b>
<b>Investing</b>		
Purchase of plant and equipment	(94)	(201)
<b>Net cash used in investing activities</b>	<b>(94)</b>	<b>(201)</b>
Effect of exchange rate on cash	143	(30)
Net change in cash and equivalents	(324)	883
Cash and equivalents, beginning of period	1,939	2,150
<b>Cash and equivalents, end of period</b>	<b>\$ 1,615</b>	<b>\$ 3,033</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 56	\$ 21

**PROPHOTONIX LIMITED**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
In thousands  
(unaudited)

	Common Stock						Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Par	\$0.001	Paid in Capital	Deferred Compensation	Accumulated Deficit		
Balance December 31, 2018	<b>93,000</b>		<b>\$93</b>	<b>\$114,067</b>	<b>\$(19)</b>	<b>(\$110,746)</b>	<b>\$882</b>	<b>\$4,277</b>
Net loss	-		-	-	-	(206)	-	(206)
Translation adjustment	-		-	-	-	-	73	73
Deferred compensation	150		0	5	(5)	-	-	0
Share based compensation	-		-	(488)	19	-	-	(469)
Balance June 30, 2018	<b>93,150</b>		<b>93</b>	<b>\$113,584</b>	<b>\$(5)</b>	<b>(\$110,952)</b>	<b>\$955</b>	<b>\$3,675</b>

## Notes to unaudited Interim Results

### Basis of Presentation

The Company financial reports are issued under the recognition and measurement principles of United States Generally Accepted Accounting Principles (GAAP). The accompanying unaudited condensed consolidated financial reports reflect all adjustments of a normal recurring nature necessary for a fair statement of the (i) results of operations and comprehensive loss for the six month periods ended June 30, 2019 and 2018; (ii) the financial position at June 30, 2019 and June 30, 2018; and (iii) the cash flows for the six month period ended June 30, 2019 and 2018. These unaudited interim results are not necessarily indicative of results for a full year or any other interim period. Copies of this announcement are available on the Company's website at [www.prophotonix.com](http://www.prophotonix.com).

### Revenue Recognition

Effective January 1, 2018, the Company has recognized revenue under FASB ASC 606, whereby all contracts containing a performance element have been evaluated for the necessity to recognize revenue as the performance obligation is achieved.

## **Cautionary Statement**

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact, including without limitation, those with respect to ProPhotonix's goals, plans and strategies set forth herein are forward-looking statements. The following important factors and uncertainties, among others, could cause actual results to differ materially from those described in these forward-looking statements: uncertainty that cash balances will be sufficient to allow ProPhotonix to meet all of its business goals; uncertainty that ProPhotonix's new products will gain market acceptance; the risk that delays and unanticipated expenses in developing new products could delay the commercial release of those products and affect revenue estimates; the risk that one of our competitors could develop and bring to market a technology that is superior to those products that we are currently developing; and ProPhotonix's ability to capitalize on its significant research and development efforts by successfully marketing those products that the Company develops. Forward-looking statements represent management's current expectations and are inherently uncertain. All Company, brand, and product names are trademarks or registered trademarks of their respective holders. ProPhotonix undertakes no duty to update any of these forward-looking statements.



## Use of Non-GAAP Financial Measures

The Company provides non-GAAP financial measures, such as adjusted EBITDA, to complement its consolidated financial statements presented in accordance with GAAP. Non-GAAP financial measures do not have any standardized definition and, therefore, are unlikely to be comparable to similar measures presented by other reporting companies. These non-GAAP financial measures are intended to supplement the user's overall understanding of the Company's current financial and operating performance and its prospects for the future. Specifically, the Company believes the non-GAAP results provide useful information to both management and investors by identifying certain expenses, gains and losses that, when excluded from the GAAP results, may provide additional understanding of the Company's core operating results or business performance, which management uses to evaluate financial performance for purposes of planning for future periods. However, these non-GAAP financial measures are not intended to supersede or replace the Company's GAAP results.

The Company uses adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation and impairment charges) as a non-GAAP financial measure in this press release. A reconciliation of net income to adjusted EBITDA for the six months ended June 30, 2019 and 2018 is as follows:

	In thousands	
	Six Months Ended June 30,	
	2019	2018
Net loss	\$(206)	\$(507)
Plus:		
Interest and other (income) expense, net	71	75
Amortization of debt discount and financing costs	8	-
Depreciation and amortization	103	91
Stock based compensation	(469)	559
Adjusted EBITDA	\$(493)	\$218

## About ProPhotonix

ProPhotonix Limited, headquartered in Salem, New Hampshire, is a high technology designer and manufacturer of diode-based laser modules and LED systems for industry leading OEMs and medical equipment companies. In addition, the Company distributes premium diodes for Ushio, Osram, QSI, Panasonic, and Sony. The Company serves a wide range of markets including the machine vision, industrial inspection, security, and medical markets. ProPhotonix has offices and subsidiaries in the U.S., Ireland, U.K., and Europe. For more information about ProPhotonix and its innovative products, visit the Company's web site at [www.prophotonix.com](http://www.prophotonix.com).