

September 10, 2020

*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, 2020**

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, 2020.

### **Financial Highlights**

- Revenue decreased 3.7% to \$6.9 million (H1-2019: \$7.2 million)
- Gross profit increased 21.7% to \$3.3 million (H1-2019: \$2.7 million)
- Operating income (excluding stock compensation expense of \$50,000) of \$0.3 million (H1-2019: \$0.6 million operating loss, excluding stock compensation credit \$0.5 million).
- Net income of \$0.3 million (H1-2019: \$0.2 million net loss)
- Adjusted EBITDA of \$0.4 million (H1-2019: \$0.5 million loss).
- Order bookings of \$6.8 million (H1-2019: \$7.5 million)
- Book-to-Bill ratio of 0.99 (H1-2019: 1.04)
- Percentage revenue by market sectors: 84% industrial, 15% medical and 1% security & defense (H1-2019: 73% industrial, 23% medical and 4% security & defense)
- Percentage revenue by geography: 41% Europe, 53% North America and 6% Rest of World (H1-2019: 40% Europe, 58% North America and 2% Rest of World)

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

### **Financial**

"Revenues in the first half of 2020 decreased 3.7% over the same period 2019 primarily due to a decrease of \$0.8 million in LED product sales offset by a net increase in Laser and Diode product sales of \$0.5 million. Gross profit margin improved to 47.1% compared with 37.2% for the same period in 2019, mainly due to a shift in product mix and the absorption of manufacturing overhead into inventory. In the first half of 2020 we experienced an operating profit of \$0.3 million compared to operating loss of \$0.1 million in 2019. The operating profit for first half of 2020 was primarily a result of higher profit margins and cost reduction measures put in place to lower the cost structure in response to the Director's concern over the potential negative economic impact associated with COVID-19. Excluding the stock option expense/benefit, operating income in the first half 2020 was \$0.3 million as compared to an operating loss of \$0.6 million in 2019. Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation and impairment charges) was a profit of \$0.4 million, as compared to a loss of \$0.5 million in the first half of 2019.

The cash position of the Company improved to \$1.9 million as compared to \$1.5 million at year end, due to increased operating profits, strict working capital management, and various Covid-19 related State aid. The debt position of the Company improved substantially in the first half of 2020 as it repaid the \$0.9 million revolving credit facility in full. As of June 30, 2020, the Company held a net cash position of \$1.3 million versus a net debt position as of December 31, 2019 of \$0.1 million."

### **Trading update**

Given the inherent uncertainties surrounding COVID-19, the Board continues to believe it is inappropriate to provide forward looking guidance to investors and analysts at the current time.

### **Enquiries:**

**ProPhotonix Limited**  
Tim Losik, President & CEO

Tel: +1 603 893 8778  
[ir@prophotonix.com](mailto:ir@prophotonix.com)

### **WH Ireland Limited**

Katy Mitchell  
Matthew Chan

Nominated Adviser and Broker  
Tel: +44 (0) 20 7220 1666

### **Half Year 2020 Financial Results**

Revenue for the half year ended June 30, 2020 was \$6.9 million, a decrease of 3.7% compared with \$7.2 million in the same period of 2019 primarily due to a net decrease in LED product sales offset by a net increase in Laser and Diode product sales.

Gross profit was \$3.2 million, an increase of 21.8% compared to \$2.7 million in the first half of 2019. Gross profit margin improved to 47.1% compared with 37.2% for the same period in 2019, mainly due to a shift in product mix and absorption of manufacturing overhead expenses into inventory.

Operating expenses totaled \$3.0 million versus \$2.8 million for the comparable period in 2019; inclusive a benefit in 2019 of \$0.5 million for stock compensation. Selling, general and administrative expenses increased \$0.2 million to \$2.4 million primarily due to increased stock compensation as there was a stock compensation credit of \$0.5 million in 2019 that was not repeated in 2020. Research and development expenses remained relatively flat compared with the prior year at \$0.5 million compared to \$0.6 million in 2019.

The improved gross profit resulted in an operating profit of \$0.3 million (\$0.3 million profit excluding stock compensation expense), compared with an operating loss of \$0.1 million in the first half of 2019 (\$0.6 million loss excluding stock compensation credit).

Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation and impairment charges) was a profit of \$0.4 million, as compared to a loss of \$0.5 million in the first half of 2019.

Net income was \$0.3 million, as compared to a \$0.1 million net loss in the first half 2019.

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

	Six Months Ended June 30,	
	2020	2019
Revenue	\$ 6,902	\$ 7,165
Cost of revenue	(3,654)	(4,497)
Gross profit	<b>3,248</b>	<b>2,668</b>
Selling, general and administrative expenses	(2,430)	(2,192)
Research and development expenses	(544)	(603)
Operating income (loss)	274	(127)
Other income (expense), net	31	(16)
Interest expense	(33)	(55)
Warrant and debt acquisition expense	(6)	(8)
Income (loss) before income tax	<b>266</b>	<b>(206)</b>
Income tax	-	-
Net income (loss)	<b>266</b>	<b>(206)</b>
Other comprehensive income:		
Foreign currency translation	(26)	73
Total comprehensive income (loss)	<b>\$ 240</b>	<b>\$ (133)</b>
Net income (loss) per share:		
Basic net income (loss) per share	<b>\$ 0.003</b>	<b>\$ (0.002)</b>
Diluted net income (loss) per share	<b>\$ 0.003</b>	<b>\$ (0.002)</b>
Shares used in per share calculation - basic	93,150,402	93,075,402
Shares used in per share calculation - diluted	93,150,402	93,075,402

	Six Months Ended June 30,	
	2020	2019

**PROPHOTONIX LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**

\$ In thousands except share data  
(unaudited)

For the six months ended June 30, 2020 and 2019	2020	2019
---	------	------

**Assets**

Current assets:

Cash and cash equivalents	\$ 1,937	\$ 1,615
Accounts receivable, less allowances of \$10 in 2020 and \$53 in 2019	1,680	3,120
Inventories, less allowances of \$782 in 2020 and \$716 in 2019	2,738	2,953
Prepaid expenses and other current assets	603	383
Total current assets	6,958	8,071
Net property, plant and equipment	528	597
Operating lease right-of-use asset	236	-
Deferred tax assets	-	451
Goodwill	397	402
Intangible assets, net	397	346
Other long-term assets	116	81

For the six months ended June 30, 2020 and 2019

	2020	2019
<b>Total assets</b>	<b>\$ 8,632</b>	<b>\$ 9,948</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Revolving credit facility	\$ -	\$ 1,107
Current portion of long-term debt	158	197
Accounts payable	1,605	2,151
Accrued payroll, benefits and incentive compensation	301	354
Deferred revenue	690	283
Accrued warranty expenses	156	168
Operating lease liabilities, current	111	-
Other accrued expenses	617	1,125
Current portion of finance lease obligations	55	57
Total current liabilities	3,693	5,442
Deferred revenue, noncurrent	145	284
Operating lease liabilities, noncurrent	124	-
Long term debt obligations, net of current portion	364	478
Long term finance lease obligations, net of current portion	26	69
<b>Total liabilities</b>	<b>4,352</b>	<b>6,273</b>
<b>Stockholders' Equity:</b>		

For the six months ended June 30, 2020 and 2019

	2020	2019
Common stock, par value \$0.001; shares authorized 250,000,000 at June 30, 2019 and June 30, 2018; 93,150,402 shares issued and outstanding at June 30, 2019 and 93,150,402 shares issued and outstanding at June 30, 2018	93	93
Additional paid-in capital	112,885	113,584
Deferred compensation	-	(5)
Accumulated deficit	(109,484)	(110,952)
Accumulated other comprehensive income	786	955
<b>Total stockholders' equity</b>	<b>4,280</b>	<b>3,675</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 8,632</b>	<b>\$ 9,948</b>

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

	Six Months Ended June 30,	
	2020	2019
<b>Operations</b>		
Net income (loss)	\$ 266	\$ (206)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	49	(469)
Depreciation and amortization	113	103
Foreign exchange (gain)/loss	(31)	13
Amortization of debt discount and financing costs	6	8
Provision for inventories	55	103
Provision for bad debts	(7)	5
Other change in assets and liabilities:		
Accounts receivable	989	(270)
Inventories	(277)	(672)
Deferred Revenue	54	-
Prepaid expenses and other current assets	48	(96)
Operating lease right-of-use asset	75	

	Six Months Ended June 30,	
	2020	2019
Accounts payable	(252)	371
Accrued expenses	419	887
Other assets and liabilities	26	(17)
<b>Net cash used in operating activities</b>	<b>1,533</b>	<b>(240)</b>
<b>Financing</b>		
Exercise of options and warrants	-	-
Net borrowing (repayment) of revolving credit facility	(874)	17
Capital lease	(16)	(30)
Net borrowing (principal repayment) of long-term debt	(85)	(120)
<b>Net cash (used in) provided by financing activities</b>	<b>(975)</b>	<b>(133)</b>
<b>Investing</b>		
Purchase of plant and equipment	(59)	(94)
<b>Net cash used in investing activities</b>	<b>(59)</b>	<b>(94)</b>
Effect of exchange rate on cash	(39)	143
Net change in cash and equivalents	460	(324)
Cash and equivalents, beginning of period	1,477	1,939
<b>Cash and equivalents, end of period</b>	<b>\$ 1,937</b>	<b>\$ 1,615</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 33	\$ 56

**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, 2019	93,150		\$93	\$112,838	\$(2)	(\$109,750)	\$813	\$3,992
Net loss	-		-	-	-	266	-	266
Translation adjustment	-		-	-	-	-	(26)	(26)
Deferred compensation	-		-	(2)	2	-	-	-

Share based compensation	-	-	48	-	-	-	48
Balance June 30, 2019	<u>93,150</u>	<u>93</u>	<u>\$112,884</u>	<u>\$ -</u>	<u>(\$109,484)</u>	<u>\$787</u>	<u>\$4,280</u>

## 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, 2020 and 2019; (ii) the financial position at June 30, 2020 and June 30, 2019; and (iii) the cash flows for the six month period ended June 30, 2020 and 2019. These unaudited interim results are not necessarily indicative of results for a full year or any other interim period. This announcement is available on the Company's website at [www.prophotonix.com](http://www.prophotonix.com).

### 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, 2020 and 2019 is as follows:

	<b>In thousands</b>	
	<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Net income (loss)	\$266	\$(206)
Plus (minus):		
Interest and other (income) expense, net	2	71
Amortization of debt discount and financing costs	6	8
Depreciation and amortization	113	103
Stock based compensation	48	(469)
Adjusted EBITDA	\$435	\$(493)

## **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, ultra violet (UV) curing, 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).