



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.

September 8, 2021

ProPhotonix Limited

("ProPhotonix" or the "Company")

INTERIM RESULTS FOR THE HALF YEAR ENDED JUNE 30, 2021

ProPhotonix Limited (London Stock Exchange - AIM: PPIX, OTC: STKR), a leading technology designer and manufacturer of LED illumination systems and laser diode modules, with operations in Ireland and the United Kingdom, today announces its unaudited results for the six months ended June 30, 2021.

Half Year 2021 Financial Results

Revenue for the half year ended June 30, 2021 was \$7.9 million, an increase of 14%, on a reported basis, compared with \$6.9 million in the same period of 2020. On a constant currency basis, revenue increased 5% over the same period of 2020. The increase is primarily due to increases in LED product sales.

Reported gross profit for the half year ended June 30, 2021 was \$3.3 million, an increase of 2.2% compared to \$3.3 million in the first half of 2020. Gross profit margin for the half year ended June 30, 2021 declined to 42.2% from 47.1% compared to the same period in 2020, mainly due to product mix, increased material costs, and the benefit in 2020 of various COVID-19 related government aid.

Operating expenses for the six months ended June 30, 2021 totaled \$2.7 million versus \$3.0 million for the comparable period in 2020. Selling, general and administrative expenses for the six months ended June 30, 2021 decreased by \$0.2 million to \$2.2 million compared to the same period in 2020 due primarily to lower headcount costs and COVID-19 travel restrictions. Research and development expenses for each of the six month periods ended June 30, 2021 and 2020 were \$0.5 million.

The improved gross profit and lower operating expenses resulted in an operating profit of \$0.6 million for the six months ended June 30, 2021, doubling the operating profit of \$0.3 million recognized in the first half of 2020.

Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation and impairment charges) for the six months ending June 30, 2021 was \$0.7 million, as compared to \$0.4 million for the same period in 2020.

Net income was \$0.5 million for the six months ended June 30, 2021, as compared to \$0.3 million in net income in the first half of 2020.

Cash and cash equivalents at June 30, 2021 were \$3.0 million as compared to \$2.6 million at December 31, 2020 and \$1.9 million at June 30, 2020. Detailed financial results and notes follow.

Key metrics

- Order bookings of \$9.5 million (H1-2020: \$6.8 million)
- Book-to-Bill ratio of 1.21 (H1-2020: 0.99)
- Backlog (order book) of \$7.1 million (H1-2020: \$6.4million)
- Percentage revenue by market sectors: 79% industrial, 20% medical and 1% security & defense (H1-2020: 84% industrial, 15% medical and 1% security & defense)
- Percentage revenue by geography: 43% Europe, 46% North America and 11% Rest of World (H1-2020: 41% Europe, 54% North America and 5% Rest of World)

Tim Losik, President & CEO, commented:

Financial

"Overall, I am pleased with our results for the first half of 2021. The Company experienced improvement in virtually every financial metric, including revenue, gross profit, operating income, net income and adjusted EBITDA as compared to the first half of 2020. Further, we increased our cash balance to \$3.0 million, while further paying down debt.

The \$1.0 million or 14% increase in reported revenue in the first half of 2021 compared to the first half of 2020 resulted from increases of \$0.8 million, or 26%, in LED product revenue and \$0.2 million, or 5%, in Laser and Diode product revenue. While we expect to experience mounting pressure towards increased operating expenses as the broader economic recovery continues, I'm pleased that we were able to decrease our operating expenses by \$0.2 million, or 8%, during the first half of 2021 as compared to the first half of 2020. We will continue to prudently invest in the resources that are necessary to deliver the highest quality products and services to our customers throughout the world and are therefore likely to see some increase in our operating expenses in the second half of 2021 as compared to the first half."

Covid-19

The outbreak of the COVID-19 pandemic and the measures adopted by local governments to mitigate its spread impacted the Company much more in 2020 than in 2021. The Company has not as yet suffered operations shutdowns in 2021 versus the pandemic caused shut down of its facilities for brief periods in 2020. However, risks in the supply chain have heightened as many components are in short supply with extended delivery lead-time. Although there have been no substantial delays or negative consequences to the business from supply chain issues, this remains a significant risk for the foreseeable future.

Trading update

With a strong order book, the Directors believe at this time that the second half trading will be in line with the first half trading subject to further disruptions by COVID-19 and/or supply chain and logistics challenges. The Directors caution that the risks in the supply chain are substantial and there will very likely be disruptions impacting the business.

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

	Six Months Ended June 30,	
	2021	2020
Revenue	\$ 7,867	\$ 6,902
Cost of revenue	(4,548)	(3,654)
Gross profit	3,319	3,248
Selling, general and administrative expenses	(2,202)	(2,430)
Research and development expenses	(548)	(544)
Operating income	569	274
Other income (expense), net	(46)	31
Interest expense	(29)	(33)
Warrant and debt acquisition expense	(4)	(6)
Income before income tax	490	266
Income tax	-	-
Net income	490	266
Other comprehensive loss:		
Foreign currency translation	(108)	(26)
Total comprehensive income	\$ 382	\$ 240
Net income per share:		
Basic net income per share	\$ 0.004	\$ 0.003
Diluted net income per share	\$ 0.005	\$ 0.003
Shares used in per share calculation – basic	93,300,402	93,150,402
Shares used in per share calculation – diluted	101,442,902	93,150,402

PROPHOTONIX LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
\$ In thousands except share data
(unaudited)

As of June 30	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,001	\$ 1,937
Accounts receivable, less allowances of \$11 in 2021 and \$10 in 2020	2,451	1,680
Inventories, less allowances of \$838 in 2021 and \$782 in 2020	2,565	2,738
Prepaid expenses and other current assets	413	603
Total current assets	8,430	6,958
Net property, plant and equipment	415	528
Operating lease right-of-use asset	30	236
Deferred tax assets	—	—
Goodwill	420	397
Intangible assets, net	518	397
Other long-term assets	116	116
Total assets	\$ 9,929	\$ 8,632
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility	\$ 54	\$ —
Current portion of long-term debt	279	158
Accounts payable	1,759	1,605
Accrued payroll, benefits and incentive compensation	313	301
Deferred revenue	591	690
Accrued warranty expenses	202	156
Operating lease liabilities, current	30	111
Other accrued expenses	626	617
Current portion of finance lease obligations	25	55
Total current liabilities	3,879	3,693
Deferred revenue, noncurrent	229	145
Operating lease liabilities, noncurrent	—	124
Long term debt obligations, net of current portion	212	364
Long term finance lease obligations, net of current portion	16	26
Total liabilities	4,336	4,352
Stockholders' Equity:		
Common stock, par value \$0.001; shares authorized 250,000,000 at June 30, 2021 and June 30, 2020; 93,300,402 shares issued and outstanding at June 30, 2021 and 93,150,402 shares issued and outstanding at June 30, 2020	93	93
Additional paid-in capital	112,894	112,885
Deferred compensation	—	—
Accumulated deficit	(108,168)	(109,484)
Accumulated other comprehensive income	774	786
Total stockholders' equity	5,593	4,280
Total liabilities and stockholders' equity	\$ 9,929	\$ 8,632

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

	Six Months Ended	
	June 30,	
	2021	2020
Operations		
Net income	\$ 490	\$ 266
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	-	49
Depreciation and amortization	108	113
Foreign exchange (gain)/loss	132	(31)
Amortization of debt discount and financing costs	4	6
Provision for inventories	(27)	55
Provision for bad debts	2	(7)
Other change in assets and liabilities:		
Accounts receivable	(252)	989
Inventories	78	(277)
Deferred Revenue	(119)	54
Prepaid expenses and other current assets	41	48
Intangible assets, net	(71)	-
Intercompany accounts payable	(5)	-
Operating lease right-of-use asset	-	75
Accounts payable	313	(252)
Accrued expenses	(114)	419
Other assets and liabilities	11	26
Net cash provided by operating activities	591	1,533
Financing		
Exercise of options and warrants	-	-
Net borrowing (repayment) of revolving credit facility	(32)	(874)
Capital lease	(23)	(16)
Net borrowing (principal repayment) of long-term debt	(108)	(85)
Net cash used by financing activities	(163)	(975)
Investing		
Purchase of plant and equipment	-	(59)
Net cash used in investing activities	-	(59)
Effect of exchange rate on cash	(68)	(39)
Net change in cash and equivalents	360	460
Cash and equivalents, beginning of period	2,641	1,477
Cash and equivalents, end of period	\$ 3,001	\$ 1,937
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 35	\$ 33

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

	Common Stock				Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Par \$0.001	Paid in Capital	Deferred Compensation			
Balance December 31, 2020	93,300	\$93	\$112,894	\$-	(\$108,658)	\$882	\$5,211
Net income	-	-	-	-	490	-	490
Translation adjustment	-	-	-	-	-	(108)	(108)
Balance June 30, 2021	93,300	\$93	\$112,894	\$ -	(\$108,168)	\$774	\$5,593

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, 2021 and 2020; (ii) the financial position at June 30, 2021 and June 30, 2020; and (iii) the cash flows for the six month period ended June 30, 2021 and 2020. 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.

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 of business disruption relating to COVID-19; uncertainty of supply chain stability and availability of components used in the Company's products; 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, 2021 and 2020 is as follows:

	In thousands	
	Six Months Ended June 30,	
	2021	2020
Net income	\$490	\$266
Plus:		
Interest and other expense, net	75	2
Amortization of debt discount and financing costs	4	6
Depreciation and amortization	126	113
Stock based compensation	-	48
Adjusted EBITDA	\$695	\$435

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.