March 21, 2019

OSS Reports Q4 and Full Year 2018 Results: Net Revenue up 104% to $14.4 Million in Q4 and up 34% to $37.0 Million in 2018

ESCONDIDO, Calif., March 21, 2019 (GLOBE NEWSWIRE) -- One Stop Systems, Inc. (Nasdaq: OSS), a leader of *AI on the Fly*™ technologies, reported results for the fourth quarter and full year ended December 31, 2018 and updated guidance for 2019.

Financial Highlights

- Net revenue increased 104% to $14.4 million in Q4 and increased 34% to $37.0 million for the full year 2018.
- Revenue on an organic basis, which excludes 2018 acquisitions, increased 42% to $10.0 million in Q4, and increased 18% to $32.5 million for the full year 2018.
- Net loss attributable to common stock holders totaled $120,000 in Q4, and $1.1 million for the full year 2018.
- Non-GAAP income increased to $1.4 million or $0.09 per diluted share in Q4 versus $39,000 or $0.00 per diluted share in the same year-ago period, and increased 95% to $1.4 million or $0.10 per diluted share for the full year (see definition of non-GAAP EPS and reconciliation to GAAP, below).

Operational Highlights

- Went public on The Nasdaq Capital Market with IPO proceeds of $19.5 million (Q1).
- Increased production of media and entertainment systems throughout the year, including introduction of a new state-of-the-art model at yearend.
- Moved into full production with mil-spec flash storage array design being deployed on the P-8 Poseidon aircraft (Q2).
- Acquired Concept Development, Inc. (CDI), expanding core competency and market presence for in-flight entertainment systems (Q3).
- Won 2018 TechConnect Defense Innovation Award for state-of-the-art military flash storage array (Q4).
- Acquired Bressner Technology GmbH (Bressner), expanding European presence with significant OEM design-ins and new opportunities (Q4).
- Won significant OEM design-ins during the year, including new customized video display servers, security video analysis server, medical panel and embedded PCs, and compute accelerator for satellite signal integrity.

Infrastructure Improvements

- Remodeled and expanded Escondido headquarters to facilitate consolidation of San Diego operations and increase production capacity. Project completion expected in Q2 2019.
- Began implementation of new ERP system to facilitate business scalability and full integration of operations. Initial phase expected to be operational in Q3 2019.

Product & Technology Highlights

- Expanded the company's line of rack scale GPU accelerator products with the introduction of GPUltima composable infrastructure products (Q1).
- Introduced new high-bandwidth Ion Accelerator™ flash storage array product line (Q1).
- Introduced world's first Gen 4 PCIe cable adapters, doubling the performance between servers and IO sub-systems (Q3).
- Introduced ExpressBox™ laptop expansion system that provides external high-end graphics capabilities using Thunderbolt 3™ (Q3).
- Introduced world's first NVIDIA SXM-2 based compute accelerator expansion system, providing state-of-the-art AI compute capabilities for use with existing servers (Q4).

Financial Summary

Net revenue increased 104% to $14.4 million in Q4 and increased 34% to $37.0 million for the full year 2018.

Revenue on an organic basis, which excludes 2018 acquisitions, increased 42% to $10.0 million in Q4, and increased 18% to $32.5 million for the full year 2018.

The increase in organic revenue was primarily driven by major OSS customers ramping up production, including increased sales of flash arrays to an airborne military customer, and increased server sales to an OEM media and entertainment customer.

CDI, acquired on August 31, 2018, contributed $568,000 or 3.9% of total revenue in Q4, and $755,000 or 2.0% of the total revenue in 2018.

Bressner, acquired on October 31, 2018, contributed $3.8 million or 26% of total revenue in Q4 and 10% for the full year.

SkyScale contributed $2,000 or 0.0% of revenue in Q4, and $159,000 or 0.4% of revenue for the full year. The SkyScale business was discontinued in Q4 2018.

Gross profit was $4.3 million or 30.0% of revenue in Q4, up from $1.9 million or 27.6% of revenue in the same year-ago quarter. This represents growth of 121% in gross profit over the year-ago quarter.

For the full year, gross profit was $11.3 million or 30.6% of revenue, as compared to $8.7 million or 31.5% in 2017. This represents growth of 31% in gross profit. The improvement in gross profit was attributable to the overall business growth.

Operating expenses total $5.4 million or 37% of revenue in Q4, up from $2.7 million or 38% of revenue in the same year-ago quarter. For the full year, operating expenses totaled $14.5 million or 39% of revenue as compared to $9.1 million or 33% of revenue in 2017. The increase in both periods was mainly attributable to increased general and administrative expense, including costs of being a public company, amortization of intangible assets related to acquisitions, acquisition expenses, and costs resulting from the dissolution of SkyScale. To a lesser extent, expenses increased due to increased marketing and selling expense, and research and development expense for continued market development, and the development of new and enhanced product offerings.

Net loss attributable to common stockholders on a GAAP basis totaled $120,000 or $(0.01) per share in Q4 compared to $121,000 or $(0.02) per share in the year-ago period. For the full year, net loss attributable to common stockholders was $1.1 million or $(0.09) per basic share as compared to $97,000 or $0.01 per diluted share in 2017.

Non-GAAP income increased to $1.4 million or $0.09 per diluted share in Q4 versus $39,000 or $0.00 per diluted share in the same year-ago period, and increased 95% to $1.4 million or $0.10 per diluted share for the full year.

Adjusted EBITDA was $891,000 in Q4 as compared to an adjusted EBITDA loss of $300,000 in the year-ago period. Adjusted EBITDA for the full year totaled $805,000 as compared to $979,000 in 2017 (see definition of adjusted EBITDA, a non-GAAP term, and reconciliation to GAAP below).

Cash and cash equivalents totaled $2.3 million at December 31, 2018 as compared to $186,000 at December 31, 2017. The increase is due to the proceeds from the company's IPO on February 1, 2018, partially offset by cash used for paydown of OSS debt, working capital, acquisitions of CDI and Bressner, and infrastructure projects.

The company's available credit facilities total $6.0 million. Based on the company's current plans and business conditions, it believes that existing cash, cash generated from operations, and available credit facilities are sufficient to satisfy its anticipated cash requirements for at least the next 12 months.

Management Commentary

"2018 was a breakout year for OSS, driven by our successful IPO, tremendous organic customer growth, new application design wins, and strategic acquisitions," said OSS president and CEO, Steve Cooper. "We ended the year with a revenue run-rate that was more than double over the previous year. Given our business model of repeat revenue from major OEM and military programs, this represents tremendous momentum going into 2019.

"We believe OSS is well positioned for the significant trends emerging within the specialized high-performance computing marketplace. Two of these trends include the shift in PCI-e from Gen 3 to Gen 4 and the emergence of 'AI on the Fly' applications. OSS has demonstrated the core capabilities necessary to excel in these areas and expects to remain on the forefront of both technologies.

"Already in 2019, we have received a major win for our GPUltima computing system, with a $1.1 million initial purchase order for a mobile AI on the Fly application. We have also begun work on two new customized server applications, as well as several PCI-e Gen 4 products. Our Bressner unit also received a $1.3 million initial purchase order for a customized Embedded PC from a customer in the medical industry.

“The three key elements of our growth strategy – OEM customer ramp-up, new design-wins and strategic acquisitions – all contributed to our record growth in 2018 and the strong start to the new year. These elements, combined with a record backlog and strong sales pipeline, provide confidence that our rapid growth will continue in 2019 and beyond.”

Guidance Update
The company reiterates its outlook for the full year 2019: revenue is anticipated to be between $54 million to $58 million, representing organic growth of 12% to 18% and overall growth of 51% to 54%.

The company expects revenue for Q1 2019 to be in the range of $11.9 million to $12.6 million, representing organic growth of 10% to 12% and overall growth of 67% to 77% as compared to the same year-ago quarter.

Quarterly revenue may fluctuate plus or minus 15% from the company’s plan in any given quarter due to variations in delivery and/or seasonal fluctuations.

Conference Call
OSS management will hold a conference call to discuss its 2018 results later today, followed by a question and answer period.

Date: Thursday, March 21, 2019
Time: 5:00 p.m. Eastern time (2:00 p.m. Pacific time)
Toll-free dial-in number: 1-800-458-4121
International dial-in number: 1-323-794-2597
Conference ID: 6059739

The conference call will be webcast live and available for replay here as well as via a link in the Investors section of the company’s website at ir.onestopsystems.com. OSS regularly uses its website to disclose material and non-material information to investors, customers, employees and others interested in the company.

Please call the conference telephone number five minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact CMA at 1-949-432-7566.

A replay of the call will be available after 8:00 p.m. Eastern time on the same day through April 4, 2019.

Toll-free replay number: 1-844-512-2921
International replay number: 1-412-317-6671
Replay ID: 6059739

About One Stop Systems
One Stop Systems, Inc. (OSS) designs and manufactures high performance compute accelerators, flash storage arrays and customized servers for deep learning, AI, defense, finance and entertainment applications. OSS utilizes the power of PCI Express, the latest GPU accelerators and NVMe flash cards to build award-winning systems, including many industry firsts, for OEMs and government customers. The company’s innovative hardware and Ion Accelerator Software offers exceptional performance and unparalleled scalability. OSS products are available directly or through global distributors. For more information, go to www.onestopsystems.com

Non-GAAP Financial Measures
OSS management believes that the use of adjusted earnings before interest, taxes, depreciation and amortization, or adjusted EBITDA, is helpful for an investor to assess the performance of the company. Starting this quarter, the company changed its definition of adjusted EBITDA. The company defines adjusted EBITDA as income (loss) attributed to common stockholders before interest, taxes, depreciation, amortization, acquisition expense, finance cost, fair value adjustments from purchase accounting, stock-based compensation, and expenses related to discontinued operations.

Adjusted EBITDA is not a measurement of financial performance under generally accepted accounting principles in the United States, or GAAP. Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company’s non-cash operating expenses, OSS management believes that providing a non-GAAP financial measure that excludes non-cash and non-recurring expenses allows for meaningful comparisons between the company's core business operating results and those of other companies, as well as providing an important tool for financial and operational decision making and for evaluating our own core business operating results over different periods of time.

The company's adjusted EBITDA measure may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in its industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. The company's adjusted EBITDA is not a measurement of financial performance under GAAP, and should not be considered as an alternative to operating income or as an indication of operating performance or any other measure of performance derived in accordance with GAAP. OSS management does not consider adjusted EBITDA to be a substitute for, or superior to, the information provided by GAAP financial results.

	For The Three Month Periods ended December 31, (unaudited)		For The Twelve Month Periods Ended December 31, (unaudited)	
	2018	**2017**	**2018**	**2017**
Net income (loss) attributable to company	$ (120,328)	$ (120,675)	$ (1,136,278)	$ 96,620
Depreciation and amortization	508,295	235,430	1,350,329	836,274
Amortization of debt discount	-	5,959	24,830	23,837
Stock-based compensation expense	152,356	55,812	527,335	160,062
Interest expense	9,872	55,100	65,693	199,257
Benefit for income taxes	(721,975)	(536,185)	(1,396,784)	(402,717)
Costs resulting from dissolution of SkyScale	705,309	-	705,309	-
Acquisition expenses (1)	357,592	4,437	664,333	65,805
Adjusted EBITDA	$ 891,121	$ (300,122)	$ 804,767	$ 979,138

(1) Expenses incurred in the acquisition of CDI and Bressner in 2018 and Ion in 2017, respectively.

Adjusted EPS excludes the impact of certain items and, therefore, has not been calculated in accordance with GAAP. Management believes that exclusion of certain selected items assists in providing a more complete understanding of its underlying results and trends and allows for comparability with the company's peer company index and industry. Management uses this measure along with the corresponding GAAP financial measures to manage the company's business and to evaluate its performance compared to prior periods and the marketplace. The company defines Non-GAAP (loss) income attributable to common stockholders as (loss) or income before amortization, stock-based compensation, expenses related to discontinued operations, acquisition expense. Adjusted EPS expresses adjusted (loss) income on a per share basis using weighted average diluted shares outstanding.

As compared to the previously reported quarter, the company has changed its definition of non-GAAP EPS to include the costs resulting from dissolution of SkyScale.

Adjusted EPS is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. These non-GAAP financial measures may not be computed in the same manner as similarly titled measures used by other companies. The company expects to continue to incur expenses similar to the adjusted income from continuing operations and adjusted EPS financial adjustments described above, and investors should not infer from the company's presentation of these non-GAAP financial measures that these costs are unusual, infrequent or non-recurring.

The following table reconciles net (loss) income attributable to common stockholders and diluted earnings per share:

	For The Three Month Periods ended December 31, (unaudited)		For The Twelve Month Periods Ended December 31, (unaudited)	
	2018	**2017**	**2018**	**2017**
Net (loss) income attributable to common stockholders	$ (120,328)	$ (120,675)	$ (1,136,278)	$ 96,620
Amortization of intangibles	306,859	99,663	636,786	395,644
Stock-based compensation expense	152,356	55,812	527,335	160,062
Costs resulting from dissolution of SkyScale	705,309	—	705,309	-
Acquisition expenses	357,592	4,437	664,333	65,805

Non-GAAP (loss) income attributable to common stockholders	$ 1,401,788	$ 39,237	$ 1,397,485	$ 718,131
Non-GAAP (loss) income attributable to common stockholders:				
Basic	$ 0.10	$ 0.01	$ 0.11	$ 0.13
Diluted	$ 0.09	$ 0.00	$ 0.10	$ 0.07
Weighted average common shares outstanding:				
Basic	14,172,102	5,449,413	12,586,513	5,449,413
Diluted	15,304,649	10,689,047	13,741,343	10,689,047

Important Cautions Regarding Forward-Looking Statements

One Stop Systems (OSS) cautions you that statements in this press release that are not a description of historical facts are forward-looking statements. These statements are based on the company's current beliefs and expectations. These forward-looking statements include statements regarding the company’s expected growth in 2019. The inclusion of forward-looking statements should not be regarded as a representation by One Stop Systems that any of its plans will be achieved.

Actual results may differ from those set forth in this press release due to the risk and uncertainties inherent in our business, including, without limitation, risks associated with maintaining performance standards, continuing to fill purchase orders, impacts, costs and other features in the company’s product lines and other risks described in its prior press releases and in its filings with the Securities and Exchange Commission (SEC), including under the heading "Risk Factors" in its Annual Report on Form 10-K and any subsequent filings with the SEC. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof, and we undertake no obligation to revise or update this press release to reflect events or circumstances after the date hereof. All forward-looking statements are qualified in their entirety by this cautionary statement, which is made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

ONE STOP SYSTEMS, INC. (OSS)

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	**2017**
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,272,256	$ 185,717
Accounts receivable, net	10,540,150	5,192,730
Inventories, net	6,823,930	3,696,330
Prepaid expenses and other current assets	666,330	978,428
	20,302,666	10,053,205
Property and equipment, net	1,759,086	1,581,814
Deposits and other	49,966	31,215
Deferred tax assets, net	2,505,632	1,318,447
Goodwill	7,914,211	3,324,128
Intangible assets, net	3,525,257	608,405
	$ 36,056,818	$ 16,917,214

	December 31,	
	2018	**2017**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 3,708,865	$ 3,904,613
Accrued expenses and other liabilities	3,930,718	1,933,977
Borrowings on bank lines of credit	422,960	3,334,508
Current portion of related-party notes payable, net of debt discount of $13,905	-	136,303
Current portion of notes payable, net of debt discount of $9,932	-	640,079

Current portion of notes payable to foreign banks (Note 8)	1,156,915	-
Total current liabilities	9,219,458	9,949,480
Related-party notes payable, net of current portion and debt discount of $579	-	12,696
Notes payable, net of current portion and debt discount of $414	-	335,267
Notes payable to foreign banks, net of current portion (Note 8)	265,038	-
Total liabilities	9,484,496	10,297,443
Commitments and contingencies (Note 11)		
Stockholders' equity		
Series C preferred stock, no par value, convertible; 0 shares and 2,000,000 shares, respectively authorized; 0 and 1,087,006 issued and outstanding respectively; liquidation preference of $1,630,509	-	1,604,101
Series B preferred stock, no par value, convertible; 0 and 1,500,000 shares, respectively authorized; 0 and 1,450,000 issued and outstanding, respectively; liquidation preference of $725,000	-	697,996
Series A preferred stock, no par value, convertible; 0 and 500,000 shares, respectively authorized; 0 and 500,000 issued and outstanding, respectively; liquidation preference of $125,000	-	114,430
Common stock, $.0001 par value; 50,000,000 shares authorized; 14,216,328 and 5,514,917 shares issued and outstanding, respectively	1,422	551
Additional paid-in capital	27,424,113	3,484,428
Noncontrolling interest	500	436,842
Accumulated other comprehensive income	1,142	-
Retained (deficit) earnings	(854,855)	281,423
Total stockholders' equity	26,572,322	6,619,771
	$ 36,056,818	$ 16,917,214

ONE STOP SYSTEMS, INC. (OSS)

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Month Period Ended December 31, (unaudited)		For The Twelve Month Periods Ended December 31,	
	2018	2017	2018	2017
Net revenue	$ 14,381,666	$ 7,052,957	$ 37,027,382	$ 27,538,333
Cost of revenue	10,070,101	5,103,620	25,692,658	18,873,797
Gross margin	4,311,565	1,949,337	11,334,724	8,664,536
Operating expenses:				
General and administrative	2,783,375	953,914	6,513,298	3,502,998
Marketing and selling	1,427,274	783,869	3,995,258	2,924,727
Research and development	1,175,999	943,196	4,001,757	2,687,249
Total operating expenses	5,386,648	2,680,979	14,510,313	9,114,974
Loss from operations	(1,075,083)	(731,642)	(3,175,589)	(450,438)
Other income (expense):				
Interest expense	(9,872)	(55,100)	(65,693)	(199,257)
Other, net	175,357	21,831	271,878	30,440
Total other income (expense), net	165,485	(33,269)	206,185	(168,817)
Loss before benefit from income taxes	(909,598)	(764,911)	(2,969,404)	(619,255)
Benefit for income taxes	(721,975)	(536,185)	(1,396,784)	(402,717)
Net loss	$ (187,623)	$ (228,726)	$ (1,572,620)	$ (216,538)
Net loss attributable to noncontrolling interest	$ (67,295)	$ (108,051)	$ (436,342)	$ (313,158)
Net (loss) income attributable to common stockholders	$ (120,328)	$ (120,675)	$ (1,136,278)	$ 96,620
Net (loss) income per share attributable to common stockholders:				
Basic	$ (0.01)	$ (0.02)	$ (0.09)	$ 0.02

Diluted	$ (0.01)	$ (0.02)	$ (0.09)	$ 0.01
Weighted average common shares outstanding:				
Basic	14,172,102	5,429,997	12,586,513	5,449,413
Diluted	14,172,102	5,429,997	12,586,513	10,689,047

Media Contact:
Katie Rivera
One Stop Systems, Inc.
Tel (760) 745-9883
Email contact

Investor Relations:
Ronald Both or Grant Stude
CMA
Tel (949) 432-7557
Email contact

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Source: One Stop Systems, Inc.