

Giga-tronics Reports Fiscal 2022 Third Quarter Results

DUBLIN, Calif., Feb. 08, 2022 (GLOBE NEWSWIRE) -- Giga-tronics Incorporated (OTCQB: GIGA) ("Giga-tronics" or the "Company") today reported results for the third fiscal quarter and nine months ended December 25, 2021.

Third Quarter Fiscal Year 2022 Review

- Revenue of \$2.0 million decreased 51% compared to revenue of \$4.1 million in the third quarter of fiscal 2021.
 - Microsource filter revenue decreased 28% compared to the third quarter of fiscal 2021 primarily due to lower order activity.
 - RADAR and Electronic Warfare ("RADAR/EW") test revenue decreased to \$164,000 versus \$1.6 million in the third quarter of fiscal 2021. The Giga-tronics division shipped an Advanced Signal Generator order in the third quarter of fiscal 2022 as compared to shipping a TEMS system and two COMPASS systems in the third quarter of fiscal 2021.
- Gross profit decreased to \$736,000 in the third quarter of fiscal 2022 as compared to \$1.6 million in the third quarter of fiscal 2021 mainly due to the decreased revenue.
- Engineering expenses decreased by \$339,000 primarily due to increased capitalization of software engineering expenses, reduced engineering personnel costs, reduced consulting costs and non-recurring engineering expenses for contract services that are allocated to cost of revenue and are credited to engineering expenses.
- Selling, general and administrative expenses increased by \$359,000 in the third quarter of fiscal 2022 versus the third quarter of fiscal 2021 primarily due to transaction-related expenses associated with the share exchange agreement with BitNile Holdings, Inc and Gresham Worldwide, Inc.
- Net loss attributable to common shareholders for the third quarter of fiscal 2022 was (\$795,000) or (\$0.29) per basic share compared to net income of \$830,000 or \$0.33 per basic share in the third quarter of fiscal 2021 primarily due to lower net revenue coupled with transaction costs of \$402,000 in the third quarter of fiscal 2022. Additionally, third quarter fiscal 2021 net income included a one-time gain of \$791,000 related to the extinguishment of the Company's PPP loan.
- Adjusted EBITDA (EBITDA adjusted for net other income or expense items, share based compensation and certain one-time income or expense items) was a loss of (\$213,000) in the third quarter of fiscal 2022 compared to Adjusted EBITDA of \$187,000 in the third quarter of fiscal 2021.
- Following the close of the third fiscal quarter 2022, the Company announced that it entered into a share exchange agreement with BitNile Holdings, Inc for the Company's acquisition of Gresham Worldwide, Inc., a global provider of proprietary, purpose-built electronic solutions to military and leading defense companies around the world in the areas of RF devices, power electronics and Electronic Warfare applications, such as signal simulation and missile launch products.

First Nine Months of Fiscal Year 2022 Review

- Net revenue for the first nine months of fiscal 2022 was \$7.6 million, a 26% decrease as compared to \$10.3 million for the first nine months of fiscal 2021.
 - Microsource reported an increase of \$245,000 in revenues for the first nine months of fiscal 2022 as compared to the first nine months of fiscal 2021 primarily due to an increase in the production of YIG filters with the addition of a third production test station.
 - RADAR/EW test revenue was \$512,000 during the first nine months of fiscal 2022 as compared to \$3.5 million in the first nine months of fiscal 2021. During the first nine months of 2022 the Giga-tronics division did not receive certain large anticipated military orders which have long approval and processing cycles.
- Gross profit decreased by \$1.2 million in the first nine months of fiscal 2022 to \$2.9 million from \$4.1 million in the first nine months of fiscal 2021 primarily due to lower revenues and product mix with lower revenue contributed by the typically higher margin RADAR/EW test products compared to the prior year.
- Operating expenses decreased by \$82,000 in the first nine months of fiscal 2022 to \$4.3 million from \$4.4 million primarily due to lower engineering expenses in the first nine months of fiscal 2022, including lower personnel costs, increased capitalization of software engineering expenses, lower consulting costs and non-recurring engineering expenses for contract services that are allocated to cost of revenue and are credited to engineering expenses, which was substantially offset by the \$402,000 of transaction related costs in fiscal 2022.
- Net loss for the first nine months of fiscal 2022 was (\$1.6 million), compared to net income of \$425,000 recorded in the first nine months of fiscal 2021. The net loss was primarily due to the decrease in net revenue for the Giga-tronics division along with transaction related costs in the first nine months of fiscal 2022 and a one-time gain on the extinguishment of the PPP loan in the first nine months of fiscal 2021, as described above.
- Adjusted EBITDA was a loss of \$(582,000) in the first nine months of fiscal 2022 compared to Adjusted EBITDA of \$131,000 in the first nine months of fiscal 2021.

John Regazzi, President and Chief Executive Officer of the Company, said, “We experienced constrained order and shipment activity during the third quarter of fiscal 2022 in both our microwave filter and our RADAR/EW business units. Our business works primarily with the military, and we are subject to procurement timelines set by independent contracting organizations within the Defense Department, making the procurement process less predictable. Additionally, the resurgence of COVID-19 caused unplanned staff shortages at many of the independent contracting agencies and compelled many of the acquisition organizations and their staffs to work remotely, which slowed the evaluation, review and approval processes, resulting in delays of contract awards. While we are disappointed in the booking activity to date in fiscal 2022, as the virus appears to be again receding, we are optimistic that we will benefit when contract award activity resumes at a more regular cadence.”

Lutz Henckels, Executive Vice President, Chief Financial Officer and Chief Operating Officer stated, “Our third quarter fiscal 2022 results are very disappointing and were primarily driven by the slowdown in new orders. Orders for both our Microsource sole source filter business and our RADAR/ EW test business tend to be large and sporadic so their timing can have a

significant impact on our results from quarter to quarter and last year's third quarter saw particularly strong order activity."

"We remain optimistic about the long-term prospects for our business and are excited about our pending combination with Gresham Worldwide, Inc.", Mr. Henckels continued, "Gresham's operations are expected to complement Giga's, allowing us to accelerate our efforts to grow by focusing on three very attractive end markets: Electronic Warfare, RF Solutions and Filters and Power conversion as well as by adding scale, production capacity, engineering, R&D expertise and enhanced global reach. We anticipate that the combined company will generate more than \$40 million in annual revenue, thereby providing the resources going forward to drive growth both organically and inorganically. We believe the transaction represents a transformational opportunity for us to drive growth and profitability as the business scales, and as we increase our presence in the higher margin Electronic Warfare vertical."

Earnings Conference Call

Giga-tronics will host a conference call today, February 8, 2022, at 4:30 p.m. ET to discuss the results for the third quarter of fiscal 2022, ended December 25, 2021. To participate in the call, dial (888) 517-2470 or (630) 827-6818 and enter PIN Code 6926 602#. A replay of the call will subsequently be made available on the Giga-tronics website under "Investor Relations". The conference call discussion reflects management's views as of February 8, 2022.

About Giga-tronics Incorporated

Giga-tronics Incorporated is a publicly held company, traded on the OTCQB Capital Market under the symbol "GIGA". Giga-tronics produces RADAR filters and Microwave Integrated Components for use in military defense applications as well as sophisticated RADAR/EW test products primarily used in electronic warfare test & emulation applications.

Forward Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements in this press release, other than statements of historical facts, are forward-looking statements. Generally, forward-looking statements and information can be identified by the use of forward-looking terminology such as "expects" or "anticipates", or variations of such words and phrases or statements that certain actions, events or results "may," "could," "should," or "will" occur. Forward-looking statements include, among others, those concerning future product developments, future prospects, future operating results (including, for example, future revenue, growth, expenses, margin and profitability), growth in market share, product competitiveness, the pending acquisition of Gresham Worldwide, Inc., including the anticipated benefits of the transaction, and expected and potential sales. Forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by the Company and its management, are inherently uncertain. Factors that may cause actual results to differ materially from current expectations include the Company's ability to successfully manufacture its RADAR/EW test products; the Company's ability to successfully identify customer needs and to design and implement new features; the timely receipt of components from third-party suppliers; the receipt or timing of future orders for products or

services and cancellations or deferrals of existing or future orders; the adequacy of the Company's capital resources; the Company's ability to manage expenses; the results of pending or threatened litigation; the Company's ability to successfully implement its business plan; the Company's need to modify its business plan as a result of these or other risks; volatility in the market price of the Company's common stock; and the circumstances relating to the COVID-19 pandemic and governmental responses; and the Company's ability to successfully complete its acquisition of Gresham Worldwide, Inc. in a timely manner and to integrate and manage the combined businesses following the completion of the transaction. You should not place undue reliance on any forward-looking statements, which are made as of the date of this press release. The Company undertakes no obligation to update publicly any of these forward-looking statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements. For further discussion, see the Company's most recent annual report on Form 10-K for the fiscal year ended March 27, 2021 Part I, under the heading "Risk Factors" and Part II, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" and those in other public filings the Company may make with the SEC.

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GIGA-TRONICS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands except share data)

	December 25, 2021	March 27, 2021*
Assets		
Current assets:		
Cash	\$ 316	\$ 736
Trade accounts receivable, net of allowance of \$0 and \$3, respectively	223	801
Inventories	4,645	3,601
Prepaid expenses	40	100
Unbilled receivable	1,620	1,120
Total current assets	6,844	6,358
Property and equipment, net	370	455
Right-of-use asset	609	865
Other long-term assets	308	169
Total assets	\$ 8,131	\$ 7,847
Liabilities and shareholders' equity		
Current liabilities:		

Accounts payable	\$ 1,165	\$ 1,044
Loans payable, net of discounts and issuance costs	670	683
Accrued payroll and benefits	580	446
Deferred revenue	—	7
Lease obligations	476	445
Other current liabilities	247	279
Total current liabilities	3,138	2,904
Other non-current liabilities	4	6
Long term lease obligations	328	690
Total liabilities	3,470	3,600

Shareholders' equity:

Preferred stock; no par value; Authorized – 1,000,000 shares

Series A convertible preferred stock: 250,000 shares designated;

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0 shares issued and outstanding at December 25, 2021 and March 27, 2021

Series B, C, D convertible preferred stock: 19,500 designated shares;

2,745 2,745

17,782 shares issued and outstanding at December 25, 2021 and March 27, 2021;

(liquidation preference of \$3,367 at December 25, 2021 and March 27, 2021)

Series E convertible preferred stock: 100,000 designated shares; 5,700 and 9,200 shares

90 177

issued and outstanding at December 25, 2021 and March 27, 2021, respectively;

(liquidation preference of \$214 at December 25, 2021 and \$345 at March 27, 2021)

Common stock; no par value; Authorized – 13,333,333 shares; 2,725,010 and 2,635,856

34,603 32,306

shares issued and outstanding at December 25, 2021 and March 27, 2021, respectively

Accumulated deficit

(32,777) (30,981)

Total shareholders' equity

4,661 4,247

Total liabilities and shareholders' equity

\$ 8,131 \$ 7,847

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

* Derived from the audited financial statements as of and for the fiscal year ended March 27, 2021.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands except per share data)

	Three Months Ended		Nine Months Ended	
	December 25, 2021	December 26, 2020	December 25, 2021	December 26, 2020
Net revenue:				
Goods	\$ 164	\$ 1,559	\$ 512	\$ 3,490
Services	1,810	2,525	7,079	6,834
Total revenue	1,974	4,084	7,591	10,324
Cost of revenue	1,238	2,527	4,734	6,213
Gross profit	736	1,557	2,857	4,111
Operating expenses:				
Engineering	218	557	854	1,548
Selling, general and administrative	1,296	937	3,444	2,832
Total operating expenses	1,514	1,494	4,298	4,380
Operating income (loss)	(778)	63	(1,441)	(269)
Gain on extinguishment of PPP Loan	—	791	—	791
Interest expense, net and other:				
Interest expense, net	(13)	(21)	(27)	(85)
Other income (expense), net	—	—	(65)	—
Income (loss) before income taxes	(791)	833	(1,533)	437
Provision for income taxes	2	—	10	2
Net income (loss)	(793)	833	(1,543)	435
Deemed dividend on Series E preferred stock	(2)	(3)	(7)	(10)
Cumulative dividends on converted Series E preferred stock	—	—	(43)	—
Net income (loss) attributable to common shareholders	\$ (795)	\$ 830	\$ (1,593)	\$ 425
Income (loss) per common share – basic	\$ (0.29)	\$ 0.33	\$ (0.58)	\$ 0.17
Income (loss) per common share – diluted	\$ (0.29)	\$ 0.28	\$ (0.58)	\$ 0.14
Weighted average common shares used in per share calculation:				
Basic	2,725	2,549	2,725	2,549
Diluted	2,725	2,933	2,725	2,933

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Non-GAAP Financial Measures: Adjusted EBITDA is non-GAAP measure that does not have a standardized definition under U.S. GAAP. The Company has provided this non-GAAP measure in this press release because management believes it measures the Company's operating performance and free cash flow in a manner useful to investors. The Company defines Adjusted EBITDA as EBITDA adjusted for net other income or expense items, share based compensation and certain one-time income or expense items.

	Three Months Ended	
	December 25, 2021	December 26, 2020
Net income (loss)	\$ (793)	\$ 833
Cumulative and deemed dividends on Series E preferred stock	(2)	(3)
Net income (loss) attributable to common shareholders	(795)	830
Depreciation and amortization	50	61
Interest and taxes	17	24
EBITDA	(728)	915
Adjustments:		
Stock-based compensation	113	63
Gain on extinguishment of PPP Loan	—	(791)
Transaction related expenses	402	—
Adjusted EBITDA	\$ (213)	\$ 187

	Nine Months Ended	
	December 25, 2021	December 26, 2020
Net income (loss)	\$ (1,543)	\$ 435
Cumulative and deemed dividends on Series E preferred stock	(50)	(10)
Net income (loss) attributable to common shareholders	(1,593)	425
Depreciation and amortization	157	195
Interest and taxes	(27)	97
EBITDA	(1,463)	717
Adjustments:		
Stock-based compensation	414	205
Finance costs for issuance of prefunded warrants	157	—
Gain on remeasurement of prefunded warrants liability	(92)	—
Gain on extinguishment of PPP Loan	—	(791)
Transaction related expenses	402	—
Adjusted EBITDA	\$ (582)	\$ 131

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Source: Giga-tronics Incorporated