

Coda Octopus Group Reports Fiscal Third Quarter 2023 Financial Results

ORLANDO, FL, Sept. 13, 2023 (GLOBE NEWSWIRE) -- Coda Octopus Group, Inc. ("CODA" or the "Company") (Nasdaq: CODA), a global market leader in real-time 3D/4D/5D and 6D imaging sonar technology for real-time subsea intelligence and diving technology, today reported its unaudited financial results for its fiscal third quarter ended July 31, 2023 (TQ2023) and the nine months then ended (YTD 2023).

Third Quarter 2023 Operational Summary:

- Management continues to focus on and execute against its core business strategy to grow the Company. CODA continues to believe that its most promising pillars of growth are its Echoscope PIPE[®] imaging sonar series, as well as its recently developed Diver Augmented Visions Display (DAVD) systems and spin-off DAVD products, such as the DAVD Digital Audio System.
- The penetration of the Defense market is critical for the realization of the Company's growth plans. In the third quarter, the Company had strong momentum around several initiatives that are crucial for its growth plans, including:
 - Completing a second phase Defense Project for the Navy. CODA delivered a full solution for a diver handheld high-resolution, real time 3D mapping and inspection platform that incorporates its real-time 3D volumetric imaging sonar (Echoscope PIPE[®]). The Navy specifically requested that this new platform incorporate CODA's DAVD technology. Integration of the DAVD on this survey platform provides alternative and additive displays for the diver, and critically, a low light emittance, near-eye display that represents a shift away from high brightness tablets and monitors. This platform will initially be used by the Navy for ship hull mapping and scanning applications. The platform will now be going through Navy testing. The second phase development project delivered \$450,000 in funding. The previous phase, which the Company completed in the previous financial year and comprised feasibility and prototype testing, received \$500,000 in funding.
 - Coordinating and executing successful trials of CODA Echoscope PIPE[®] C500 (Compact Edition) in San Diego for the Naval Information Warfare Center (NIWC), following their selection of the Videoray Defender underwater vehicle as their preferred platform in this category of small underwater vehicles. The trials were successful and flawlessly showcased the capability to perform real time 3D inspection, target identification and high-resolution mapping, and, uniquely, allowed the ROV pilot to fly the ROV in zero visibility conditions using the live real time 3D sonar display from the Echoscope PIPE[®]. While the demonstration was

specifically for the NIWC vehicles team, other US and UK Navy attendees were also able to witness the demonstration. The results of these trials are being evaluated.

- Receiving favorable mission results from three of the Company's Prime Defense Customers who have active new generation underwater vehicle programs and who have selected, integrated, and recently successfully demonstrated CODA's Echoscope PIPE[®] sonar technologies on their subsea vehicles as part of their customer acceptance programs. These programs vary from small vehicle 3D perception to larger vehicle multi-tasking capabilities, all greatly benefiting from the real-time 3D volumetric data unique to CODA's patented Echoscope PIPE[®] technology. The Company continues to work with these customers as they complete their various acceptance test programs with their end customers.
- Continuing to support the Navy with the operational roll-out of the DAVD tethered systems (Gen 3.0) to different commands. In the third quarter, CODA provided extensive training to the newly appointed Navy "Field DAVD Super User" who will work with the Navy DAVD Program Manager specifically to ensure the operational success of the newly fielded DAVD systems. The Company also provided training to SWRMC (Southwest Regional Maintenance Center) in San Diego, who received their initial DAVD training as a new user group to the DAVD Navy family. SWRMC is responsible for all ship maintenance and diver salvage in the busy San Diego area, and they already have been able to utilize the DAVD system on a live mission. UCT in Port Hueneme also received additional DAVD systems.
- Supporting US Navy dive inspection and salvage operations in Maui in response to the recent devastating wildfires. The DAVD Echoscope[®] C500 Inspector System was used for real time mapping and monitoring of the underwater environment.
- Making progress with the DAVD untethered variant, which CODA delivered earlier in the year for initial evaluation. The Company has now received approximately \$750,000 of an agreed \$1.8m funding for supplying eight (8) further evaluation DAVD untethered systems and to perform further mission specific customization work. The funding program is a joint initiative between the US Navy and a foreign Navy, making it the first time that another foreign navy is co-opting in the DAVD development program. The partnership serves as a strong indication that this significant foreign navy will adopt the DAVD untethered variant jointly with the US Navy. This approach is also in line with the Company's expectation of how the DAVD adoption process will work.
- Receiving the findings of the major commercial European Offshore Service Provider—one of the "Big Four" global dredging companies--with whom CODA performed a DAVD tethered system trial in the second quarter. This customer has now confirmed its intention to adopt the DAVD within its organization, and the Company is working on the model for initial adoption. In the provider's report

on the findings for the DAVD trials, it states:

“The advantage of the DAVD alone (compass, depth, taking snapshots and presenting graphical information for diver and supervisor) or combined with a 3D live sonar video stream is clear and increases safety and efficiency. The 3D sonar fits well within our scope of work and our survey division is aware of this. We think that the combination of DAVD and 3D sonar has potential within our organization...”

The numbers below have been rounded to one decimal point. The full TQ2023 and YTD financials can be found in CODA’s Form 10-Q filed with the SEC.

- Total revenue was \$4.9 million in TQ2023 compared to \$6.3 million during the same prior year period (TQ2022), a decrease of 22.0%.
- Revenues from the Marine Technology Business (Products) were \$2.9 million in TQ2023 compared to \$4.0 million in TQ2022, a 28.5% decrease.
- Revenues from the Marine Engineering Business (Services) were \$2.0 million compared to \$2.3 million in TQ2022, representing a decrease of 10.4%.
- In the TQ2023, the Company generated gross profit of \$3.4 million compared to \$4.6 million in TQ2022. Gross margin in TQ2023 was 68.8% compared to 72.8% in TQ2022. This is largely attributable to the mix of sales in the quarter and increased commission costs incurred in the period.
- Operating income in TQ2023 was \$0.9 million compared to \$2.0 million in TQ2022. Operating margin was 17.6% compared to 32.3% in the third quarter last year.
- Net income before taxes was \$1.1 million in TQ2023 compared to \$2.0 million in TQ2022. Net income after taxes was \$1.0 million in TQ2023 compared to \$1.8 million in TQ2022.
- Diluted earnings per share in the TQ2023 period was \$0.09 compared to \$0.16 in TQ2022.
- CODA’s balance sheet continued to strengthen in TQ2023. The cash balance at the end of the third quarter of \$24.9 million represents a \$3.5 million increase over TQ2022 and an increase of \$2.0 million over the end of fiscal year 2022.

YTD2023 Financial Summary:

- Total revenue for the YTD2023 period was \$15.8 million compared to \$17.1 million in YTD2022, a decrease of 7.6%.
- Year to date, the Company generated gross profit of \$10.7 million compared to \$11.8 million in YTD2022. Gross margin in YTD2023 was 68.0% compared to 68.8% in YTD2022.

- Operating income in YTD2023 was \$3.1 million compared to \$3.9 million in YTD2022. Operating margin was 19.4% compared to 22.6% in the same period last year.
- Net income before taxes in the YTD2023 period was \$3.5 million compared to \$4.0 million in YTD2022. Net income after taxes was \$3.4 million in the YTD2023 compared to \$3.6 million in YTD2022 period.
- Year to date diluted earnings per share were \$0.31 compared to \$0.32 in FY2022.
- Net profit before tax as a percentage of revenues for the YTD2023 was 22.0% compared to 23.3% for YTD2022. Research and Development expenditures for the YTD2023 were \$1.5 million compared to \$1.8 million in YTD2022, a reduction of 13.0%. SG&A for the YTD2023 was \$6.14 million compared to \$6.12 million, an increase of 0.4%.

Management Commentary

“Our management continues to focus on growing the Company, while demonstrating that we run a profitable business year-on-year. Although our third quarter results were not aligned with our expectations or business plan, we had great momentum as a business, and I continue to be optimistic about our business and its long-term strategy,” said Annmarie Gayle, CODA’s Chairman and CEO.

“Within our Marine Technology Business, rentals revenues were down and fell short of our business plan targets. We believe the decrease is due to a slowdown in the European development of offshore wind power generations, as they renegotiate fixed price contracts, and the delays in the European offshore operators entering the US renewables market. Many major European developers and suppliers of offshore wind turbines have reported significant revenue declines related to wind farm installations, as well as delayed projects resulting from elevated costs. This has impacted on rental revenues in the third quarter.

“In addition, our third quarter performance reflects challenges with regional order intake and geopolitical demand drivers. Our Marine Technology Business recorded decreased sales in Asia during the quarter, attributed to the slow pace of converting our proposals into orders. However, we expect that some of these will be converted into firm orders in the fourth quarter of this fiscal year, as well as the first quarter of fiscal year 2024. In our Services Business, we experienced delays in receiving anticipated orders after several Department of Defense customers shifted their focus to supporting land-based applications in Ukraine and postponed naval-related work packages. We will continue to monitor these global demand and order conversion patterns and work to drive improvements in the coming quarters.

“Despite a challenging operating environment, we remain confident in our market position, and we continue to grow our pipeline of opportunities. We anticipate some of these will be realized in our fourth quarter, and we are working to diversify our revenues and increase our activities for our technology solutions in the Defense Market. We have several initiatives relating to the integration of our Echoscope® technology into a number of new Defense underwater vehicle programs, as well as to both the tethered and untethered variants of the DAVD. We still believe that the untethered version represents the biggest opportunity for the product, and we have now received funding to take this to the next stage. We continue to believe that the product will move to the final stage of adoption in fiscal 2024, which

represents the DAVD's likely inflection point.

“As we enter the last quarter of fiscal year 2023, our priority continues to be making progress with the growth strategy. We are working to drive more penetration in the Defense market with our Echoscope® and DAVD technology, including spin-off DAVD products, and to return our Engineering Business to a solid \$10 million revenue profile. We thank our shareholders for their support as we drive forward on our growth pillars.”

Revised Fiscal Year 2023 Business Outlook

Due to the slow pace of conversion of our pipeline of opportunities into firm orders, during the third quarter of 2023, the Company now expects its full year 2023 results to be more in line with its annual results in fiscal year 2022. The Company had previously targeted \$18 million in full year 2023 revenue for its technology business on a standalone basis, with a total annual revenue target of \$26 million.

Conference Call

CODA will host a conference call today, September 13, at 10:00 a.m. Eastern Time (7:00 a.m. Pacific Time) to discuss its results for the third fiscal quarter ended July 31, 2023.

CODA management will provide prepared remarks, followed by a question-and-answer period.

Date: Wednesday, September 13, 2023

Time: 10:00 a.m. Eastern time (7:00 a.m. Pacific time)

U.S. dial-in number: 1- 877-451-6152

International number: 1-201-389-0879

Conference ID: 13740764

The conference call will broadcast live and available for replay [here](#).

Persons interested in attending are required to call the conference telephone number approximately 10 minutes before the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact the Company's investor relations team at 1-949-574-3860.

A replay of the call will be available after 1:00 p.m. Eastern time on the same day through September 27, 2023.

Toll-free replay number: 1-844-512-2921

International replay number: 1-412-317-6671

Conference ID: 13740764

About Coda Octopus Group, Inc.

The Company, founded in 1994, innovates, develops, manufactures and markets subsea products (hardware and software) and solutions including its flagship real-time 3D, 4D, 5D and 6D underwater imaging sonar technology, marketed under the name “Echoscope®” and Echoscope PIPE® and its recently launched Diver Augmented Vision Display system

("CodaOctopus® DAVD"). This sonar technology generates real-time 3D, 4D, 5D and 6D imaging data for inspection and mapping underwater and is used globally for numerous applications including the commercial and defense underwater market. Applications for the Echoscope® technology include complex mapping underwater, subsea intervention, subsea asset placements, offshore renewables cable installations and surveys, marine construction, subsea infrastructure installation, mining applications, breakwater construction and monitoring, decommissioning, diving applications and port and harbor security. The recently launched new generation of diving technology, DAVD, is expected to change the way global diving operations are performed (both in the Defense and Commercial space) because it provides real time digital information for use and consumption by both the divers and the dive supervisor top-side team. It is also expected to transform the way communications are made in diving from analog audio to digital audio and to 2D and 3D visual imagery, both in textual and video format. In addition to the Marine Products business, Coda Octopus Products Ltd., CODA's two defense engineering services businesses are operated through Coda Octopus Colmek and Coda Octopus Martech. For further information, please visit <http://www.codaoctopusgroup.com> or contact us at coda@codaoctopusgroup.com.

Forward Looking Statement

This press release contains forward-looking statements concerning Coda Octopus Group, Inc. within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions are intended to identify forward-looking statements. Those forward-looking statements include, without limitation, statements regarding the Company's expectations for the growth of the Company's operations and revenue. Such statements are subject to certain risks and uncertainties, and actual circumstances, events or results may differ materially from those projected in such forward-looking statements. Factors that could cause or contribute to differences include, but are not limited to, restrictions on our business operations due to the Pandemic, customer demand for our products and market prices; the outcome of our ongoing research and development efforts relating to our products including our patented real time 3D solutions; our ability to develop the sales force required to achieve our development and other examples of forward looking statement set forth in our Annual Report on Form 10-K for the year ended October 31, 2022, filed with the Securities and Exchange Commission on January 30, 2023. Coda Octopus Group, Inc. does not undertake, and specifically disclaims any obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur.

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CODA OCTOPUS GROUP, INC.
Consolidated Balance Sheets
July 31, 2023 and October 31, 2022

	2023	2022
	Unaudited	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 24,890,568	\$ 22,927,371
Accounts Receivable, net	2,509,425	2,870,600
Inventory	11,647,639	10,027,111
Unbilled Receivables	1,742,334	602,115
Prepaid Expenses	570,079	240,464
Other Current Assets	372,183	343,061
Total Current Assets	41,732,228	37,010,722
FIXED ASSETS		
Property and Equipment, net	6,251,246	5,832,532
OTHER ASSETS		
Goodwill and Other Intangibles, net	3,853,545	3,824,394
Deferred Tax Asset	132,776	259,810
Total Other Assets	3,986,321	4,084,204
Total Assets	\$ 51,969,795	\$ 46,927,458

CODA OCTOPUS GROUP, INC.
Consolidated Balance Sheets (Continued)
July 31, 2023 and October 31, 2022

	2023	2022
	Unaudited	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,126,762	\$ 793,247
Accrued Expenses and Other Current Liabilities	225,787	1,731,706
Deferred Revenue	640,775	943,569
Total Current Liabilities	1,993,324	3,468,522
LONG TERM LIABILITIES		
Deferred Revenue, less current portion	139,242	76,127
Total Liabilities	2,132,566	3,544,649
STOCKHOLDERS' EQUITY		
Common Stock, \$.001 par value; 150,000,000 shares authorized, 11,117,695 issued and outstanding as of July 31, 2023 and 10,916,853 shares issued and outstanding as of October 31, 2022	11,118	10,918
Treasury Stock	(46,300)	(28,337)
Additional Paid-in Capital	62,802,551	62,313,988
Accumulated Other Comprehensive Loss	(2,198,618)	(4,737,124)

Accumulated Deficit	(10,731,522)	(14,176,636)
Total Stockholders' Equity	49,837,229	43,382,809
Total Liabilities and Stockholders' Equity	\$ 51,969,795	\$ 46,927,458

CODA OCTOPUS GROUP, INC.
Consolidated Statements of Income and Comprehensive Income
(Unaudited)

	<u>Three Months Ended July 31,</u>		<u>Nine Months Ended July 31,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net Revenues	\$ 4,890,532	\$ 6,267,409	\$ 15,788,325	\$ 17,090,455
Cost of Revenues	1,525,308	1,704,765	5,046,855	5,336,171
Gross Profit	3,365,224	4,562,644	10,741,470	11,754,284
OPERATING EXPENSES				
Research & Development	568,287	577,953	1,538,684	1,768,221
Selling, General & Administrative	1,934,323	1,960,978	6,138,968	6,116,085
Total Operating Expenses	2,502,610	2,538,931	7,677,652	7,884,306
INCOME FROM OPERATIONS	862,614	2,023,713	3,063,818	3,869,978
OTHER INCOME (EXPENSE)				
Other Income	214,552	19,744	403,693	114,236
Interest Expense	-	-	-	(2,902)
Total Other Income	214,552	19,744	403,693	111,334
INCOME BEFORE INCOME TAX EXPENSE	1,077,166	2,043,457	3,467,511	3,981,312
INCOME TAX (EXPENSE) BENEFIT				
Current Tax Expense	(68,771)	(326,732)	(137,555)	(503,191)
Deferred Tax Benefit	30,385	51,932	115,158	119,087
Total Income Tax Expense	(38,386)	(274,800)	(22,397)	(384,104)
NET INCOME	\$ 1,038,780	\$ 1,768,657	\$ 3,445,114	\$ 3,597,208
NET INCOME PER SHARE:				
Basic	\$ 0.09	\$ 0.16	\$ 0.31	\$ 0.33
Diluted	\$ 0.09	\$ 0.16	\$ 0.31	\$ 0.32
WEIGHTED AVERAGE SHARES:				
Basic	11,092,420	10,858,302	11,044,624	10,857,724
Diluted	11,284,137	11,375,141	11,236,341	11,374,563
NET INCOME	\$ 1,038,780	\$ 1,768,657	\$ 3,445,114	\$ 3,597,208
Foreign Currency Translation Adjustment	392,483	(805,157)	2,538,506	(2,830,758)
Total Other Comprehensive Income (Loss)	\$ 392,483	\$ (805,157)	\$ 2,538,506	\$ (2,830,758)

COMPREHENSIVE INCOME	\$	1,431,263	\$	963,500	\$	5,983,620	\$	766,450
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Source: Coda Octopus Group, Inc.