

ARC Group Worldwide Reports Strong Increase in Revenue and Profitability for the Fiscal Second Quarter 2021

DELAND, FL / ACCESSWIRE / February 8, 2021 / ARC Group Worldwide, Inc. (OTC PINK:ARCW)("ARC" or the "Company"), a leading global provider of advanced manufacturing, today reports its results for the second fiscal quarter ending December 27, 2020. ARC reports sequential quarterly income growth for fiscal year to date 2021.

Highlights for the second quarter of fiscal year 2021 compared to the second quarter fiscal year 2020 for Continuing Operations:

- Net sales were \$14.5 million, increasing by 23.4%;
- Gross profit was \$3.1 million, increasing by 120.5%;
- Operating expenses were \$1.7 million, decreasing by 27.5%;
- Interest and financing costs were \$0.3 million, decreasing by 66.5%;
- Income from continuing operations was \$1.0 million.
- EBITDA and Adjusted EBITDA was \$2.8 million. Adjusted EBITDA is a non-GAAP financial measure, which is reconciled to the most directly comparable GAAP financial measure and more fully defined in the enclosed table.

Highlights for the first six months ended December 27, 2020, compared to the first six months ended December 29, 2019 for Continuing Operations:

- Net sales were \$25.9 million, increasing by 15.9%;
- Gross profit was \$5.2 million, increasing by 99.1%;
- Operating expenses were \$3.4 million, decreasing by 25.8%;
- Interest and financing costs were \$0.6 million, decreasing by 66.3%;
- Income from continuing operations was \$1.1 million.
- EBITDA was \$4.7 million.

Prior year financials for the fiscal second quarter include the results of ARC Metal Stamping, LLC ("AMS"), which was divested in December 2019 and are presented as discontinued operations.

Quarterly Financial Summary

The following analysis is performed over Sales, Gross Profit, and EBITDA from Continuing Operations for the comparative periods identified unless otherwise noted.

Current year fiscal second quarter net sales were \$14.5 million, compared to \$11.7 million in our prior year same period. Revenue by industry for our precision injection molded components shifted substantially year over year on a quarterly basis but manufacturing agility allowed ARC to re-tool and still drive profitable growth.

- Defense sector revenue doubled over prior fiscal year same quarter driven by strong plastics manufacturing growth as well as industry related economic and political uncertainty.
- Aerospace was hardest hit and saw a year over year decrease in revenue of 50% driven by global lockdowns and travel restrictions.
- Medical was impacted by the lack of elective surgeries associated with COVID-19 and saw a decrease of 39%.
- General industry and consumer products were down 31% over prior year quarter with planned reductions of non-profitable work as well as softness in professional audio-video production components.
- Automotive was relatively flat with only a minor decrease of 5%.

Despite all the market volatility, ARC ended its' fiscal second quarter with a firm order backlog of \$18.8 million.

Current fiscal second quarter gross profit was \$3.1 million, compared to \$1.4 million in our prior year same period. Gross profit increases were driven by increased output via operational productivity and aggressive cost controls at facilities heavily hit by COVID-19 driven industry fluctuations.

Current fiscal second quarter EBITDA was \$2.8 million, compared to \$3.9 million in our prior year same quarter. The \$3.9 million from prior year same quarter included non-cash transaction related gain on the sale of an asset for \$3.7 million, which skewed results. With that transaction gain excluded, Adjusted EBITDA for the fiscal second quarter as compared to the same quarter in the prior year increased by 1,296.2%.

Fiscal Year to Date Financial Summary

Fiscal year to date 2021 net sales were \$25.9 million, compared to \$22.3 million in our fiscal year to date 2020.

Fiscal year to date 2021 gross profit was \$5.2 million, compared to \$2.6 million in our fiscal year to date 2020.

Fiscal year to date EBITDA was \$4.7 million for the fiscal year to date 2021, compared to \$4.7 million in our prior year to date. The \$4.7 million from prior year to date included non-cash transaction related gain on the sale of an asset for \$3.7 million, which skewed results. With that transaction gain excluded, Adjusted EBITDA for the fiscal year to date 2021 as compared prior fiscal year to date increased by 340.3%.

CEO Statement

Mr. Jed Rust, CEO of ARC Group Worldwide said, "The 10X increase in profitability from Q1FY21 to Q2FY21 shows the efforts of the ARC team to control costs and pivot operations to capitalize on the opportunity in the market. Our focus over the next quarter remains being

fiscally responsible where there is softness in the market and drive output particularly in the defense sector to satisfy our customers' requests."

Strategic Restructuring

ARC initiated strategic restructuring at the end of the fiscal third quarter 2019 in order to streamline its operating model, increase profitability, significantly reduce debt, strengthen the balance sheet and enhance financial flexibility. The Company has taken the following steps over the last several fiscal quarters:

- Right sized of headcount to match level of operations;
- Delisted from the NASDAQ;
- Implemented leadership changes in order execute business directives;
- Evaluated lower or negative margin business and identified ways to make profitable.
- Divested underperforming, non-core subsidiaries;
- Implemented cost savings initiatives;
- Focused on achievement of higher sales volume by optimizing engineering, tooling, quality, procurement, planning and other support areas.
- Relocation of the medical clean room to Florida, which serves the medical industry;
- Relocation of the plastics molding and tool room operations to the Firestone, Colorado campus;
- Renegotiated prior subordinated debt agreements in order to convert their remaining respective balances to preferred equity;
- Entered into a new Senior ABL Credit Facility with Fifth Third Bank.

The Company completed its restructuring during the fiscal quarter ended December 27, 2020.

COVID-19

Despite ARC's fiscal second quarter revenues grew by 23.4% through December 27, 2020, the Company continues to see slow recovery in Medical, Aerospace, General Industry and Consumer Products sectors that have been significantly impacted by COVID-19.

While ARC has been proactive and implemented a number of measures to keep cost in line with business levels, due to the global scope and uncertain duration and impact of the COVID-19 pandemic, ARC cannot reasonably estimate the pace of recovery in its end markets, nor the related impact on financial results for the remainder of the fiscal year.

ARC's role providing customers with trusted solutions is as important in the current environment as it has ever been. The company remains focused on the safety of its employees and serving customer needs, even in the face of unprecedented challenges posed by COVID-19.

GAAP to Non-GAAP Reconciliation

The Company uses Adjusted EBITDA, a Non-GAAP financial measure as defined by the SEC, as a supplemental profitability measure because management finds it useful to understand and

evaluate results, excluding the impact of non-cash depreciation and amortization charges, stock based compensation expenses, and nonrecurring expenses and outlays, prior to consideration of the impact of other potential sources and uses of cash, such as working capital items. This calculation may differ in method of calculation from similarly titled measures used by other companies and may be different than the EBITDA calculation used by our lenders for purposes of determining compliance with financial covenants. This Non-GAAP measure may have limitations when understanding performance as it excludes the financial impact of transactions such as interest expense necessary to conduct the Company's business and therefore is not intended to be an alternative to financial measures prepared in accordance with GAAP. The Company has not quantitatively reconciled its forward looking Adjusted EBITDA target to the most directly comparable GAAP measure because such items such as amortization of stock-based compensation and interest expense, which are specific items that impact these measures, have not yet occurred, are out of the Company's control, or cannot be predicted. For example, quantification of stock-based compensation is not possible as it requires inputs such as future grants and stock prices, which are not currently ascertainable.

Adjusted EBITDA from Continuing Operations, Adjusted Earnings, and Adjusted Earnings Per Share are non-GAAP financial measures. Adjusted EBITDA Margin from Continuing Operations is calculated by dividing EBITDA from Continuing Operations by sales.

The reconciliation to GAAP is as follows (dollars in thousands):

For the three months ended:	December 27, 2020	December 29, 2019
Net Income	\$ 1,035	\$ 835
Interest expense, net	308	920
Income taxes	27	34
Depreciation and amortization	1,388	1,499
Stock based compensation	62	46
Gain/loss from sale of asset	-	(3,700)
Adjustment to exclude loss from Discontinued Operations	-	568
Adjusted EBITDA from Continuing Operations	\$ 2,820	\$ 202
Adjusted EBITDA Margin from Continuing Operations	19.5%	1.7%
Net Income	\$ 1,035	\$ 835
Adjustment to exclude gain from sale of asset	-	(3,700)
Adjustment to exclude loss from discontinued operations, net of tax	-	568
Adjusted Earnings	\$ 1,035	\$ (2,297)
Adjusted Earnings Per Share	\$ 0.04	\$ (0.10)
Weighted Average Common Shares Outstanding	23,548,442	23,474,819
	December 27, 2020	December 29, 2019

For the six months ended:

Net Income/(Loss)	\$	1,128	\$	(671)
Interest expense, net		636		1,890
Income taxes		55		71
Depreciation and amortization		2,779		3,071
Stock based compensation		117		104
(Gain)/loss from sale of asset		-		(3,700)
Adjusted EBITDA Margin from Continuing Operations		18.2%		4.8%
Net Income/(Loss)	\$	1,128	\$	(671)
Adjustment to exclude gain from sale of asset		-		(3,700)
Adjustment to exclude loss from discontinued operations, net of tax		-		306
Adjusted Earnings	\$	1,128	\$	(4,065)
Adjusted Earnings Per Share	\$	0.05	\$	(0.17)
Weighted Average Common Shares Outstanding		23,548,442		23,455,953

About ARC Group Worldwide, Inc.

ARC Group Worldwide, Inc. ([OTCM:ARCW](https://www.arcw.com)) is a leading global advanced manufacturing service provider. Founded in 1987, the Company offers its customers a compelling portfolio of advanced manufacturing technologies and cutting-edge capabilities to improve the efficiency of traditional manufacturing processes and accelerate their time to market. In addition to being a world leader in metal injection molding, ARC has significant expertise in prototyping, advanced tooling, automation, machining, plastic injection molding, lean manufacturing, and robotics. ARC's mission is to bring innovation and technology to manufacturing. Learn more at [arcw.com](https://www.arcw.com).

Forward Looking Statements

This release includes certain forward-looking statements and projections of ARC Group Worldwide, Inc. Such statements are subject to risks and uncertainties that could cause results to differ materially from the Company's expectations. While the Company makes these statements in good faith, neither the Company nor its management can guarantee that anticipated future results will be achieved. The Company assumes no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by the Company, whether as a result of new information, future events, or otherwise. All forward-looking statements attributable to the Company or persons acting on the Company's behalf are expressly qualified in their entirety by the foregoing cautionary statements. All such statements speak only as of the date made, and, except as required by law, the Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ARC Group Worldwide, Inc.
Unaudited Consolidated Statement of Operations
(in thousands, except for share and per share amounts)

	For the three months ended		For the six months ended	
	December 27, 2020	December 29, 2019	December 27, 2020	December 29, 2019
Sales	\$ 14,456	\$ 11,717	\$ 25,898	\$ 22,336
Cost of sales	11,360	10,313	20,710	19,730
Gross profit	3,096	1,404	5,188	2,606
Selling, general and administrative	1,737	2,396	3,394	4,575
Income/(loss) from operations	1,359	(992)	1,794	(1,969)
Other income, net	11	3,349	25	3,565
Interest expense, net	(308)	(920)	(636)	(1,890)
Income/(loss) before income taxes	1,062	1,437	1,183	(294)
Income tax expense	(27)	(34)	(55)	(71)
Net income/(loss) from continuing operations	1,035	1,403	1,128	(365)
Loss from discontinued operations, net of tax	-	(568)	-	(306)
Net income/(loss)	<u>\$ 1,035</u>	<u>\$ 835</u>	<u>\$ 1,128</u>	<u>\$ (671)</u>
Net income/(loss) per common share, basic and diluted:				
Continuing operations	<u>\$ 0.04</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>
Discontinued operations	<u>\$ -</u>	<u>\$ (0.02)</u>	<u>\$ -</u>	<u>\$ (0.01)</u>
ARC Group Worldwide, Inc.	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.05</u>	<u>\$ (0.03)</u>

Weighted
average common
shares
outstanding:

Basic and diluted	<u>23,548,442</u>	<u>23,474,819</u>	<u>23,548,442</u>	<u>23,455,953</u>
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ARC Group Worldwide, Inc.
Unaudited Consolidated Balance Sheets
(in thousands, except for share and per share
amounts)

	<u>December 27, 2020</u>	<u>June 30, 2020</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 1,154	\$ 3,942
Accounts receivable, net	7,258	5,876
Inventories, net	6,913	5,530
Prepaid expenses and other current assets	1,218	2,410
Total current assets	<u>\$ 16,543</u>	<u>\$ 17,758</u>
Property and equipment, net	21,230	22,198
Right of use assets, net	1,492	1,869
Goodwill	6,412	6,412
Intangible assets, net	5,191	6,012
Other	174	32
Total assets	<u>\$ 51,042</u>	<u>\$ 54,281</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 3,904	\$ 2,804
Accrued expenses and other current liabilities	1,290	3,048
Deferred revenue	1,052	14
Borrowings, current portion of long-term debt and net of unamortized financing costs	1,888	6,806
Operating lease liability, current portion	543	695
Finance lease liability, current portion	905	836
Accrued buyer obligations	100	272
Total current liabilities	<u>\$ 9,682</u>	<u>\$ 14,475</u>
Long-term debt, net of current portion and net of unamortized financing costs	7,137	23,991
Operating lease liability, net of current portion	972	1,188
Finance lease liability, net of current portion	10,122	10,486
Other long-term liabilities	132	168
Total liabilities	<u>\$ 28,045</u>	<u>\$ 50,308</u>

Commitments and contingencies

Stockholders' Equity:		
Preferred stock, \$0.001 par value, 27,000,000 shares authorized, 17,925,055 shares issued and outstanding at December 27, 2020, and no shares issued and outstanding at June 30, 2020	18	-
Common stock, \$0.0005 par value, 225,000,000 shares authorized; 23,556,843 shares issued and 23,548,442 shares issued and outstanding at December 27, 2020, and 23,556,843 shares issued and 23,548,442 shares issued and outstanding at June 30, 2020	12	12
Treasury stock, at cost; 8,401 shares at December 27, 2020 and June 30, 2020	(94)	(94)
Additional paid-in capital	60,491	42,468
Accumulated deficit	(37,215)	(38,343)
Accumulated other comprehensive income/(loss)	(215)	(70)
Total stockholders' equity	<u>\$ 22,997</u>	<u>\$ 3,973</u>
Total liabilities and stockholders' equity	<u>\$ 51,042</u>	<u>\$ 54,281</u>

ARC Group Worldwide, Inc.
Unaudited Consolidated Statement of Cash Flows
(in thousands)

	For the six months ended	
	<u>December 27, 2020</u>	<u>December 29, 2019</u>
Cash flows from operating activities:		
Net income/(loss)	\$ 1,128	\$ (671)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,779	3,071
Share-based compensation expense	117	104
Amortization of debt discount	51	-
Loss on sale of subsidiary	-	153
Gain on sale of asset	-	(3,699)
Bad debt expense and other	7	40
Changes in operating assets and liabilities:		
Accounts receivable	(1,379)	1,971
Inventory	(1,383)	(98)
Prepaid expenses and other assets	441	1,352
Accounts payable	1,100	(2,357)
Accrued expenses and other liabilities	(1,967)	547

Deferred revenue	1,038	443
Net cash provided by operating activities	<u>\$ 1,932</u>	<u>\$ 856</u>

Cash flows from investing activities:

Purchases of property and equipment	(971)	(239)
Proceeds from sale of assets	-	10,000
Proceeds from sale of subsidiary	-	10,500
Net cash provided by/(used in) investing activities	<u>\$ (971)</u>	<u>\$ 20,261</u>

Cash flows from financing activities:

Proceeds from debt issuance	20,498	30,217
Principal payments of debt	(41,810)	(50,688)
Repayments of finance lease liability	(315)	(692)
Issuance of series A-1 and A-2 preferred stock	17,925	-
Issuance of common stock under employee stock purchase plan and exercise of stock options	-	13
Net cash used in financing activities	<u>\$ (3,702)</u>	<u>\$ (21,150)</u>
Effect of exchange rates on cash	(47)	(48)
Net decrease in cash	(2,788)	(81)
Cash, beginning of year	3,942	263
Cash, end of year	<u>\$ 1,154</u>	<u>\$ 182</u>

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 1,908	\$ 657
Cash paid for income taxes, net of refunds	\$ 3	\$ 6

Non-cash financing:

Assets acquired through finance leases	\$ 19	\$ 56
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SOURCE: ARC Group Worldwide, Inc.