



Ultralife Corporation Reports Third Quarter Results

Oct 31, 2019

NEWARK, N.Y., Oct. 31, 2019 (GLOBE NEWSWIRE) -- Ultralife Corporation (NASDAQ: ULBI) reported operating income of \$1.3 million on revenue of \$27.5 million for the third quarter ended September 29, 2019. For the third quarter of 2018, the Company reported operating income of \$1.5 million on revenue of \$20.3 million.

"Third quarter revenue increased 35% boosted by the contribution of Battery & Energy Products' recent acquisition, Southwest Electronic Energy Corporation ('SWE'), and including 62% higher Communications Systems sales. These gains offset a decline in Battery & Energy's core government/defense sales, reflecting timing of orders. Despite strong revenue growth, profitability was negatively impacted by late cycle product changes and rework in fulfilling a major award for Communications Systems, and the transition of several Battery & Energy new product development projects to high volume production. In addition, we continued to invest in engineering resources to support new product development projects that are designed to capture new diversified revenue streams," said Michael D. Popielec, President and Chief Executive Officer. "As we near the end of 2019, we remain focused on delivering profitable growth in 2019 by continuing to fulfill Communications Systems' vehicle amplifier adapter system orders in our backlog, solid SWE performance, and ongoing new product development projects in our end markets."

Third Quarter 2019 Financial Results

Revenue was \$27.5 million, an increase of \$7.2 million, or 35.2%, compared to \$20.3 million for the third quarter of 2018 reflecting the addition of SWE and higher Communications Systems sales. Overall, commercial sales increased 74.6% while government/defense sales decreased 3.8% from the 2018 period. Battery & Energy Products revenues were \$22.6 million, compared to \$17.3 million last year, reflecting the contribution of \$7.2 million of SWE sales and a \$0.3 million or 3.0% increase in core commercial sales. This was partially offset by a \$2.3 million or 31.6% reduction in government/defense sales as the third quarter of 2018 included a large 5390 order which was completed in 2018 and the timing of sales to global defense primes. Communications Systems sales grew 61.6% to \$4.9 million compared to \$3.0 million for the same period last year primarily reflecting shipments of vehicle amplifier adapter systems to support the U.S. Army's Network Modernization initiatives under the delivery orders announced in October 2018.

Gross profit was \$7.9 million, or 28.6% of revenue, compared to \$6.0 million, or 29.7% of revenue, for the same quarter a year ago. Battery & Energy Products' gross margin was 27.1%, compared to 27.2% last year, reflecting incremental costs associated with the transitioning of new products to higher volume production. Included in Battery & Energy Products' gross margin was a negative 21 basis point impact of non-cash purchase accounting adjustments related to the acquisition of SWE. Communications Systems gross margin was 35.5%, compared to 44.0% last year, due primarily to late cycle product changes and rework relating to the vehicle amplifier adapter systems for the U.S. Army as well as sales mix.

Operating expenses were \$6.6 million compared to \$4.5 million last year reflecting the addition of SWE and a 32.1% increase in engineering and technology expenses for new product development and testing. Operating expenses were 23.8% of revenue compared to 22.3% of revenue for the year-earlier period.

Operating income was \$1.3 million compared to \$1.5 million last year, and operating margin was 4.8% compared to 7.4% last year.

Net income was \$0.9 million or \$0.06 per share, compared to net income of \$1.4 million, or \$0.09 per share, for the third quarter of 2018. As a result of reversing the allowance on deferred tax assets at year-end 2018, net income reflects an effective tax rate of 19.6% for the third quarter of 2019 compared to an effective tax rate of 5.7% for the year-earlier quarter.

Adjusted EPS was \$0.07 for the third quarter of 2019 compared to \$0.09 for the third quarter of 2018. Adjusted EPS excludes the provision for deferred taxes which primarily represents non-cash charges of \$0.2 million for U.S. taxes which will be fully offset by net operating loss carryforwards and other tax credits for the foreseeable future.

See the "Non-GAAP Financial Measures" section of this release for a reconciliation of Adjusted EPS to EPS and Adjusted EBITDA to Net Income Attributable to Ultralife Corporation.

About Ultralife Corporation

Ultralife Corporation serves its markets with products and services ranging from power solutions to communications and electronics systems. Through its engineering and collaborative approach to problem solving, Ultralife serves government, defense and commercial customers across the globe.

Headquartered in Newark, New York, the Company's business segments include Battery & Energy Products and Communications Systems. Ultralife has operations in North America, Europe and Asia. For more information, visit www.ultralifecorporation.com.

Conference Call Information

Ultralife will hold its third quarter earnings conference call today at 8:30 AM ET. To participate in the live call, please dial (800) 915-4836 at least ten minutes before the scheduled start time, identify yourself and ask for the Ultralife call. A live webcast of the conference call will be available to investors in the Events & Presentations section of the Company's website at <http://investor.ultralifecorporation.com>. For those who cannot listen to the live broadcast, a replay of the webcast will be available shortly after the call at the same location.

This press release may contain forward-looking statements based on current expectations that involve a number of risks and uncertainties. The potential risks and uncertainties that could cause actual results to differ materially include: potential reductions in revenues from key customers, uncertain global economic conditions and acceptance of our new products on a global basis. The Company cautions investors not to place undue reliance on forward-looking statements, which reflect the Company's analysis only as of today's date. The Company undertakes no obligation to publicly update forward-looking statements to reflect subsequent events or circumstances. Further information on these factors and other factors that

could affect Ultralife's financial results is included in Ultralife's Securities and Exchange Commission (SEC) filings, including the latest Annual Report on Form 10-K.

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

ASSETS

| | September 29, 2019 | December 31, 2018 As Adjusted (1) |
|---|-------------------------------|--|
| Current Assets: | | |
| Cash | \$7,089 | \$25,934 |
| Trade Accounts Receivable, Net | 26,573 | 16,015 |
| Inventories, Net | 32,396 | 22,843 |
| Prepaid Expenses and Other Current Assets | 2,949 | 2,368 |
| Total Current Assets | 69,007 | 67,160 |
| Property, Equipment and Improvements, Net | 22,599 | 10,744 |
| Goodwill | 26,373 | 20,109 |
| Other Intangible Assets, Net | 9,683 | 6,504 |
| Deferred Income Taxes, Net | 13,556 | 15,444 |
| Other Non-Current Assets | 2,086 | 887 |
| Total Assets | \$143,304 | \$120,848 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|-----------|-----------|
| Current Liabilities: | | |
| Accounts Payable | \$10,451 | \$9,919 |
| Current Portion of Long-Term Debt | 1,326 | - |
| Accrued Compensation and Related Benefits | 1,534 | 1,494 |
| Accrued Expenses and Other Current Liabilities | 4,962 | 3,973 |
| Total Current Liabilities | 18,273 | 15,386 |
| Long-Term Debt | 16,257 | - |
| Deferred Income Taxes | 504 | 591 |
| Other Non-Current Liabilities | 1,419 | 408 |
| Total Liabilities | 36,453 | 16,385 |
| Shareholders' Equity: | | |
| Common Stock | 2,025 | 2,005 |
| Capital in Excess of Par Value | 183,995 | 182,630 |
| Accumulated Deficit | (54,456) | (58,035) |
| Accumulated Other Comprehensive Loss | (3,471) | (2,786) |
| Treasury Stock | (21,231) | (19,266) |
| Total Ultralife Equity | 106,862 | 104,548 |
| Non-Controlling Interest | (11) | (85) |
| Total Shareholders' Equity | 106,851 | 104,463 |
| Total Liabilities and Shareholders' Equity | \$143,304 | \$120,848 |

(1) Effective January 1, 2019, the Company adopted Accounting Standards Codification Topic 842 (ASC 842), *Leases*. Pursuant to ASC 842, lease liabilities and right-of-use assets for the Company's operating leases have been recognized on the consolidated balance sheet. Lease liabilities are recorded as other current and other noncurrent liabilities. Right-of-use assets are recorded as other noncurrent assets. For comparability, the Company has elected to recast the prior year comparative period to recognize the effects of ASC 842 including the recognition to equity of a \$71 cumulative effect adjustment.

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands Except Per Share Amounts)
(Unaudited)

| | Three-Month Period Ended | | Nine-Month Period Ended | |
|---|--------------------------|--------------------|-------------------------|--------------------|
| | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 |
| Revenues: | | | | |
| Battery & Energy Products | \$22,578 | \$17,289 | \$58,876 | \$52,344 |
| Communications Systems | 4,915 | 3,041 | 16,896 | 13,919 |
| Total Revenues | 27,493 | 20,330 | 75,772 | 66,263 |
| Cost of Products Sold: | | | | |
| Battery & Energy Products | 16,461 | 12,587 | 42,694 | 37,680 |
| Communications Systems | 3,171 | 1,702 | 11,268 | 8,710 |
| Total Cost of Products Sold | 19,632 | 14,289 | 53,962 | 46,390 |
| Gross Profit | 7,861 | 6,041 | 21,810 | 19,873 |
| Operating Expenses: | | | | |
| Research and Development | 2,029 | 1,099 | 4,652 | 3,417 |
| Selling, General and Administrative | 4,526 | 3,442 | 12,262 | 10,968 |
| Total Operating Expenses | 6,555 | 4,541 | 16,914 | 14,385 |
| Operating Income | 1,306 | 1,500 | 4,896 | 5,488 |
| Other Expense (Income) | 160 | (21) | 301 | 27 |
| Income Before Income Tax Provision | 1,146 | 1,521 | 4,595 | 5,461 |
| Income Tax Provision | 225 | 86 | 942 | 219 |
| Net Income | 921 | 1,435 | 3,653 | 5,242 |
| Net Income Attributable to Non-Controlling Interest | 23 | 27 | 74 | 57 |
| Net Income Attributable to Ultralife Corporation | \$898 | \$1,408 | \$3,579 | \$5,185 |
| Net Income Per Share Attributable to Ultralife Common Shareholders – Basic | \$.06 | \$.09 | \$.23 | \$.33 |
| Net Income Per Share Attributable to Ultralife Common Shareholders – Diluted | \$.06 | \$.09 | \$.22 | \$.32 |
| Weighted Average Shares Outstanding – Basic | 15,785 | 15,952 | 15,756 | 15,859 |
| Weighted Average Shares Outstanding – Diluted | 16,162 | 16,523 | 16,138 | 16,407 |

Non-GAAP Financial Measures:

Adjusted Earnings Per Share

In evaluating our business, we consider and use Adjusted EPS, a non-GAAP financial measure, as a supplemental measure of our business performance in addition to U.S. GAAP financial measures. We define Adjusted EPS as net income attributable to Ultralife Corporation excluding the provision for deferred taxes divided by our weighted average shares outstanding on both a basic and diluted basis. We believe that this information is useful in providing period-to-period comparisons of our results by reflecting the portion of our tax provision that will be offset by our U.S. net operating loss carryforwards and other tax credits for the foreseeable future. We reconcile Adjusted EPS to EPS, the most comparable financial measure under U.S. Generally Accepted Accounting Principles (“U.S. GAAP”). Neither current nor potential investors in our securities should rely on Adjusted EPS as

a substitute for any GAAP measures and we encourage investors to review the following reconciliation of Adjusted EPS to EPS and net income attributable to Ultralife Corporation.

ULTRALIFE CORPORATION AND SUBSIDIARIES
CALCULATION OF ADJUSTED EPS
(In Thousands Except Per Share Amounts)
(Unaudited)

| | Three-Month Period Ended | | | September 30, 2018 | | |
|--|--------------------------|-----------------|-------------------|--------------------|-----------------|-------------------|
| | September 29, 2019 | | | September 30, 2018 | | |
| | Amount | Per Basic Share | Per Diluted Share | Amount | Per Basic Share | Per Diluted Share |
| Net Income Attributable to Ultralife Corporation | \$898 | \$.06 | \$.06 | \$1,408 | \$.09 | \$.09 |
| Deferred Tax Provision | 165 | .01 | .01 | 18 | - | - |
| Adjusted Net Income | \$1,063 | \$.07 | \$.07 | \$1,426 | \$.09 | \$.09 |
| Weighted Average Shares Outstanding | | 15,785 | 16,162 | | 15,952 | 16,523 |

| | Nine-Month Period Ended | | | September 30, 2018 | | |
|--|-------------------------|-----------------|-------------------|--------------------|-----------------|-------------------|
| | September 29, 2019 | | | September 30, 2018 | | |
| | Amount | Per Basic Share | Per Diluted Share | Amount | Per Basic Share | Per Diluted Share |
| Net Income Attributable to Ultralife Corporation | \$3,579 | \$.23 | \$.22 | \$5,185 | \$.33 | \$.32 |
| Deferred Tax Provision | 801 | .05 | .05 | 54 | - | - |
| Adjusted Net Income | \$4,380 | \$.28 | \$.27 | \$5,239 | \$.33 | \$.32 |
| Weighted Average Shares Outstanding | | 15,756 | 16,138 | | 15,859 | 16,407 |

Adjusted EBITDA

In evaluating our business, we consider and use Adjusted EBITDA, a non-GAAP financial measure, as a supplemental measure of our operating performance in addition to U.S. GAAP financial measures. We define Adjusted EBITDA as net income attributable to Ultralife Corporation before net interest expense, provision (benefit) for income taxes, depreciation and amortization, and stock-based compensation expense, plus/minus expense/income that we do not consider reflective of our ongoing Continuing operations. We reconcile Adjusted EBITDA to net income attributable to Ultralife Corporation, the most comparable financial measure under U.S. GAAP. Neither current nor potential investors in our securities should rely on Adjusted EBITDA as a substitute for any GAAP measures and we encourage investors to review the following reconciliation of Adjusted EBITDA to net income attributable to Ultralife Corporation.

ULTRALIFE CORPORATION AND SUBSIDIARIES
CALCULATION OF ADJUSTED EBITDA
(Dollars in Thousands)
(Unaudited)

| | Three-Month Period Ended | | Nine-Month Period Ended | |
|--|--------------------------|--------------------|-------------------------|--------------------|
| | September 29, 2019 | September 30, 2018 | September 29, 2019 | September 30, 2018 |
| Net Income Attributable to Ultralife Corporation | \$898 | \$1,408 | \$3,579 | \$5,185 |
| Adjustments: | | | | |
| Interest and Financing Expense, Net | 220 | 13 | 339 | 67 |
| Income Tax Provision | 225 | 86 | 942 | 219 |
| Depreciation Expense | 586 | 496 | 1,548 | 1,476 |
| Amortization of Intangible Assets and Financing Fees | 160 | 106 | 404 | 327 |
| Stock-Based Compensation Expense | 159 | 363 | 519 | 707 |
| Non-Cash Purchase Accounting Adjustments | 59 | - | 264 | - |

Adjusted EBITDA

\$2,307

\$2,472

\$7,595

\$7,981

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Source: Ultralife Corporation