Frequency Electronics, Inc. Announces Fiscal Year 2018 Results

Jul 25, 2018

MITCHEL FIELD, N.Y., July 25, 2018 (GLOBE NEWSWIRE) -- Frequency Electronics, Inc. ("FEI" or the "Company") (NASDAQ:FEIM) reported revenues of $39.4 million for fiscal 2018, which ended April 30, 2018, compared to revenues of $50.4 million for fiscal 2017. Operating loss for fiscal 2018 was $12.4 million compared to operating loss of $7.5 million for fiscal 2017. Net loss from continuing operations was $22.5 million or ($2.54) per diluted share compared to a net loss of $4.9 million or ($0.56) per diluted share for fiscal 2017. Fiscal 2018 results were impacted by substantial non-cash and one-time charges totaling approximately $16.8 million (details are provided below). Cash and marketable securities rose to $14 million at year end, an increase of $4 million year over year.

FEI's bookings in fiscal year 2018 were substantial at just under $50 million. Late in the year the Company was awarded its largest contract ever, $37.1 million for development of a next generation atomic frequency standard for the US Air Force. The technology that FEI is developing under this contract uniquely positions the Company to be the leading provider of advanced atomic clocks for many future satellite platforms and secure communication solutions. The technology is also applicable to other platforms such as aircraft, UAVs and other government systems requiring high precision time and frequency references. The potential business opportunities associated with this technology are significant and extend well beyond the immediate contract value. FEI also secured new contracts for development of frequency synthesizers and converters for electronic warfare applications that, while small initially, have substantial follow-on production potential in coming years. FEI-Zyfer had a strong fiscal year, continuing their track record of top line growth, as they continued to make progress implementing FEI's technology in the secure communications arena.

Martin Bloch, Executive Chairman of the Board of Directors, said, "With the recent receipt of an order to provide timing systems for two secure satellites, along with other previously reported awards, FEI brought the total of space related bookings to over $50 million so far in calendar year 2018. In our press release of March 15, 2018, we targeted $50 million for all of calendar 2018 compared to approximately $3 million of such orders for all of calendar year 2017. We are very pleased to have reached this goal in only six months. For the most part, we have been working on these contract awards and anticipating their release for an extended period of time. These awards relate to major long term programs with additional high revenue opportunities for FEI. Additionally, FEI is in a very sound financial position to address the opportunities ahead with more than $14 million of cash and cash equivalents on hand."

FEI CEO, Stan Sloane, added, "While the new business horizon is the best we have ever seen, low revenues and resulting low operating income, while anticipated, were a disappointment. In fiscal year 2018, FEI continued to feel the effects of previously cited delays in satellite bookings. Consequently, we took the opportunity to focus internally and position the Company for the future by reducing inventory, divesting and winding down non-strategic subsidiaries, consolidating manufacturing operations and reducing operating costs while focusing R&D on next generation products. These efforts have streamlined the Company and will produce a more efficient, more effective operational framework for the future as revenue picks up. Despite the revenue and income softness, the Company was cash flow positive, generating $3.3 million in cash flows from operations."

Fiscal 2018 Selected Financial Metrics and Other Items

- For the year ended April 30, 2018, revenues from satellite payloads were approximately $14.2 million and 36% of consolidated revenues compared to $22.5 million or 45% for the prior year,
- Sales revenues from non-space U.S. Government/DOD customers were $17.6 million or 45% of consolidated revenues compared to $19.3 million or 38% for the previous year,
- For the year ended April 30, 2018, other commercial and industrial sales accounted for approximately $7.6 million or 19% of consolidated revenues compared to approximately $8.6 million or 17% for fiscal year 2017,
- Total sales for U.S. Government/DOD end-use, including revenues on U.S. Government satellite programs, were approximately 81% of consolidated revenues in fiscal 2018 compared to 83% in fiscal year 2017,
- Fiscal 2018 results include (1) non-cash charges of $5.6 million in inventory adjustments, (2) a non-cash income tax expense of $11.2 million primarily related to the impact of U.S. tax reform and the establishment of a valuation allowance against the U.S. deferred tax assets, and
- Net positive cash flow from operations was $3.3 million in fiscal 2018 compared to $3.5 million in the prior year.

Internal Initiatives

- In FY2018, FEI took the following actions to better position the company for future value creation:

- We wrote-off an additional $5.6 million of inventory and scrapped additional previously written-off inventory which will enable us to take advantage of the associated tax benefits. The write-offs are recorded in cost of goods sold.

- We divested our Gillam Belgium subsidiary to a European buyer. Financial details will be provided as part of our Form-10K to be filed on July 30, 2018.

- We are reviewing options to divest or wind down our Asian subsidiary.

- We consolidated FEI-Elcom manufacturing into our Long Island facility.

Investor Conference Call

As previously announced, the Company will hold a conference call to discuss these results on Wednesday, July 25, 2018, at 4:30 PM Eastern Time. Investors and analysts may access the call by dialing 1-877-407-9205. International callers may dial 1-201-689-8054. Ask for the Frequency Electronics conference call.

The archived call may be accessed by calling 1-877-481-4010 (domestic), or 1-919-882-2331 (international), using Conference ID #13681983 through August 1, 2018 and subsequent to that through a link on the Company website through October 25, 2018.

About Frequency Electronics

Frequency Electronics, Inc. is a world leader in the design, development and manufacture of high precision timing, frequency control and synchronization products for space and terrestrial applications. Frequency's products are used in satellite payloads and in other commercial, government and military systems including C4ISR and EW markets, missiles, UAVs, aircraft, GPS, secure radios, energy exploration and wireline and wireless communication networks. Frequency has received over 100 awards of excellence for achievements in providing high performance electronic assemblies for over 150 space and DOD programs. The Company invests significant resources in research and development and strategic acquisitions world-wide to expand its capabilities and markets.

Frequency's Mission Statement: Our mission is to provide precision time and low phase noise frequency generation systems from 1 Hz to 46 GHz for space and other challenging environments.

Subsidiaries and Affiliates: FEI-Zyfer provides GPS and secure timing ("SAASM") capabilities for critical military and commercial applications; FEI-Elcom Tech provides sub-systems for Electronic Warfare ("EW") related systems and added resources for state-of-the-art RF microwave products; Frequency's Morion affiliate supplies high-quality, cost effective oscillators and components. Additional information is available on the Company's website: www.frequencyelectronics.com

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995:

The Statements in this press release regarding the future constitute "forward-looking" statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, inability to integrate operations and personnel, actions by significant customers or competitors, general domestic and international economic conditions, consumer spending trends, reliance on key customers, continued acceptance of the Company's products in the marketplace, competitive factors, new products and technological changes, product prices and raw material costs, dependence upon third-party vendors, competitive developments, changes in manufacturing and transportation costs, the availability of capital, and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission. By making these forward-looking statements, the Company undertakes no obligation to update these statements for revisions or changes after the date of this release.

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Frequency Electronics, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations

	Year Ended	
	April 30, 2018	2017
	(unaudited)	(unaudited)
	(in thousands except per share data)	
Revenues	$ 39,407	$ 50,351
Cost of revenues	34,244	39,102
Gross profit	5,163	11,249
Selling and Administrative	10,608	11,898
Research and Development	6,950	6,876
Loss from operations	(12,395)	(7,525)
Interest and Other, Net	1,120	486
Loss before Income Taxes	(11,275)	(7,039)
Income Tax (Benefit) Provision	11,176	(2,115)
Net Loss from continuing operations	(22,451)	(4,924)
(Loss) Income from discontinued operations, net of tax	(967)	103
Loss on sale of discontinued operations	(359)	-

Total (loss) Income from discontinued operations	(1,326)	103
Net Loss	$ (23,777)	$ (4,821)
Net (loss) Income per Share:		
Basic and diluted loss from continued operations	$ (2.54)	$ (0.56)
Basic and diluted (loss) earnings from discontinued operations	$ (0.15)	$ 0.01
Basic and diluted loss per share	$ (2.69)	$ (0.55)
Average Shares Outstanding:		
Basic and diluted	8,841	8,787

Frequency Electronics, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	April 30, 2018 (unaudited)	April 30, 2017 (unaudited)
	(in thousands)	
ASSETS		
Cash & Marketable Securities	$ 14,018	$ 9,978
Accounts Receivable	4,268	10,986
Costs and Estimated Earnings in Excess of Billings, net	5,094	7,964
Inventories	26,186	29,051
Other Current Assets	2,509	3,711
Current Assets Held for Sale	-	8,165
Property, Plant & Equipment	14,127	14,813
Other Assets	17,382	28,082
Non-Current Assets Held for Sale	-	569
	$ 83,584	$ 113,319
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities	$ 5,257	$ 5,862
Current Liabilities Held for Sale	-	2,249
Other Long-term Obligations	15,065	14,661
Non-Current Liabilities Held for Sale	-	1,215
Stockholders' Equity	63,262	89,332
	$ 83,584	$ 113,319

Source: Frequency Electronics, Inc.