



Daktronics, Inc. Announces 2023 Fiscal Third Quarter Results

Brookings, S.D., March 8, 2023 (GLOBE NEWSWIRE) -- Daktronics, Inc. (NASDAQ - DAKT) today reported results for its fiscal 2023 third quarter which ended January 28, 2023.

Q3 FY2023 financial highlights:

- Record third quarter net sales of \$185.0 million, a 32.5 percent increase from the third quarter of fiscal 2022
- Product order backlog was \$429.1 million⁽¹⁾ compared to backlog of \$353.3 million in the year-earlier period
- Gross profit as a percentage of net sales improved from 16.0 percent to 22.6 percent compared to prior year
- Operating income was \$7.1 million and adjusted operating income⁽²⁾ was \$11.7 million, versus an adjusted operating loss of \$5.7 million in the third quarter of fiscal 2022
- Overall margin improvements were driven by:
 - Strategic pricing increases;
 - Improved supply chain, production and inventory management; and
 - Programs to improve company-wide expense management.

Reece Kurtenbach, Daktronics' Chairman, President, and Chief Executive Officer, stated, "I am grateful to our customers who continue to turn to Daktronics for our industry leading products and systems, despite the unusually long lead times caused by supply chain constraints over the last two years. At the same time, I am proud of how our employees delivered for our customers while facing historically high demand and an unprecedented operating environment." Mr. Kurtenbach continued, "Our deliberate actions to carefully align our production planning, inventory, and labor force to our strong customer demand are proving successful, as evidenced by our record sales and improved gross profit margins, operating income and cash flow during the third quarter. As we disclosed at the end of the last reported quarter, we have a robust order pipeline and backlog and improving revenue conversion."

Business and Liquidity Improvement Update

During the quarter we made significant progress across all initiatives of our liquidity enhancement program. We improved our financial flexibility with the extension of a \$10.0 million maturity on our credit facility and adjustments to generate more cash and increase profits. Our ability to reduce order cycle times was aided by the easing of pandemic-related supply chain disruptions, enabling us to work through our built-up inventory, which we expect will return to more normalized levels over the next year.

Over the course of the quarter, we made several important business improvements including:

- Adjustments to pricing and product mix to improve gross margins;
- Working capital improvements through accelerated accounts receivables collections;
- Increases to production capacity and improvements to operational efficiency;
- Careful management of expenses while prioritizing high-return investments into the business, including hiring production and customer service staff to support our growth; and
- Taking decisive measures to ensure the Company has the financial flexibility needed to meet continued strong customer demand.

The Board's independent Strategy and Financing Review Committee retained financial advisors to help examine the Company's long-term capital requirements and is currently working with management to evaluate financing alternatives. Resolving any concern about the Company's capital position remains a priority.

(1) Orders and backlog are not measures defined by accounting principles generally accepted in the United States of America ("GAAP"), and our methodology for determining orders and backlog may vary from the methodology used by other companies in determining their orders and backlog amounts. For more information related to backlog, see Part I, Item 1. Business of our Annual Report on Form 10-K for the fiscal year ended April 30, 2022. this release does not include a reconciliation of orders or backlog, as it would be impractical to do so without unreasonable effort.

(2) Adjusted operating income is not a measure defined by GAAP, and our methodology for determining adjusted operating income may vary from the methodology used by other companies in determining measures for operating performance. See the reconciliation table for more details.

Outlook

We expect the markets for the advanced technology and systems we design, engineer, manufacture and service to grow over the long-term. Technology trends and our customers' desire to inform, entertain, and persuade consumers through the dynamic displays and control software we offer will continue to drive demand for our products. In the near-term, we believe our increased production capacity and stability of operations will enable us to efficiently convert our backlog to sales while shrinking our production lead times, giving us a better opportunity to capture additional market share. We continue to intensely monitor our production capabilities, inflation's impact on material prices and labor, and supply conditions in the ever-evolving geopolitical and global economic environment to ensure we quickly adjust our resources and product pricing to expand our margins and increase our profitability.

Heading into the fourth quarter, we expect to benefit from our increased production capacity, factory automation investments, expanded labor availability, and reduced supply chain disruptions. Combined, these will support our initiatives to reduce inventory levels and improve our profitability, cash generation and working capital utilization.

Third Quarter Income Statement Highlights

Orders for the third quarter of fiscal 2023 decreased 30.9 percent as compared to the third quarter of fiscal 2022 primarily due to the record number of orders in the third quarter of fiscal 2022. Orders in 2022 were driven by pent-up demand after COVID, which was unusual and was not expected to be repeated in fiscal 2023.

Net sales for the third quarter of fiscal 2023 increased by 32.5 percent as compared to the third quarter of fiscal 2022. Sales growth was driven by the conversion of our strong backlog, improved stabilization of supply chains, and increased manufacturing capacity.

Gross profit as a percentage of net sales increased to 22.6 percent for the third quarter of fiscal 2023 as compared to 16.0 percent a year earlier. The increase in gross profit percentage was primarily due to strategic pricing actions taken late calendar year 2022 and through 2023, and because of fewer supply chain and operational disruptions during the third quarter of fiscal 2023.

Operating expenses increased 23.6 percent to \$34.6 million in the third quarter of fiscal 2023 as compared to \$28.0 million for the third quarter of fiscal 2022. We performed our annual goodwill impairment test and concluded that the carrying value of the International and Live Events reporting units exceeded their respective fair values. Consequently, we recorded a \$4.6 million non-cash goodwill impairment charge, which contributed to the increase in operating expenses. The increase was also due to legal fees, accounting and auditing services, and other personnel related expenses.

Operating income as a percent of sales for the third quarter of fiscal 2023 was a positive 3.8 percent, compared to a negative 4.1 percent for the third quarter of fiscal 2022 due to the combined factors discussed above. Adjusted operating income⁽²⁾ was 6.3 percent of sales for the third quarter of fiscal 2023.

Our effective tax rate for the three months ended January 28, 2023 was 30.5 percent as compared to an effective tax rate of 32.2 percent for the three months ended January 29, 2022. The slight decrease in tax rate is primarily driven by changes in permanent tax benefits as a percentage of book income recognized during the quarter compared to similar impacts of tax credits and other permanent tax items as a percentage of book income recognized in the third quarter of fiscal 2022.

Balance Sheet and Cash Flow

At the end of the fiscal 2023 third quarter, our working capital ratio was 1.6 to 1. Inventory levels dropped slightly since the end of the second quarter and are expected to approach more normalized levels as supply chain disruptions continue to ease and order backlog is fulfilled. Cash, restricted cash and marketable securities totaled \$11.3 million, and we had \$23.6 million drawn on our \$45.0 million line of credit and an additional \$7.5 million used for letters of credit. During the third quarter of

fiscal 2023, we generated \$12.5 million from operations and used \$5.6 million for purchases of property and equipment to improve production capacity.

About Daktronics

Daktronics has strong leadership positions in, and is the world's largest supplier of, large-screen video displays, electronic scoreboards, LED text and graphics displays, and related control systems. The company excels in the control of display systems, including those that require integration of multiple complex displays showing real-time information, graphics, animation, and video. Daktronics designs, manufactures, markets and services display systems for customers around the world in four domestic business units: Live Events, Commercial, High School Park and Recreation, and Transportation, and one International business unit. For more information, visit the company's website at: www.daktronics.com, email the company at investor@daktronics.com, call (605) 692-0200 or toll-free (800) 843-5843 in the United States, or write to the company at 201 Daktronics Dr., P.O. Box 5128, Brookings, S.D. 57006-5128.

Safe Harbor Statement

Cautionary Notice: In addition to statements of historical fact, this news release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and is intended to enjoy the protection of that Act. These forward-looking statements reflect the Company's expectations or beliefs concerning future events. The Company cautions that these and similar statements involve risk and uncertainties which could cause actual results to differ materially from our expectations, including, but not limited to, our ability to obtain additional financing on terms favorable to us, or at all, changes in economic and market conditions, management of growth, timing and magnitude of future contracts and orders, fluctuations in margins, the introduction of new products and technology, the impact of adverse weather conditions, any future goodwill impairment charges, increased regulation and other risks described in the company's SEC filings, including its Annual Report on Form 10-K for its 2022 fiscal year and its Quarterly Reports on Form 10-Q for the fiscal quarters ended July 30, 2022 and October 29, 2022. Forward-looking statements are made in the context of information available as of the date stated. The Company undertakes no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur.

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For more information contact:

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Daktronics, Inc. and Subsidiaries

Consolidated Statements of Operations

(in thousands, except per share amounts)
(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | January 28, 2023 | January 29, 2022 | January 28, 2023 | January 29, 2022 |
| Net sales | \$ 184,975 | \$ 139,558 | \$ 544,334 | \$ 448,767 |
| Cost of sales | 143,262 | 117,250 | 445,123 | 362,007 |
| Gross profit | 41,713 | 22,308 | 99,211 | 86,760 |
| Operating expenses: | | | | |
| Selling | 12,908 | 12,735 | 41,866 | 37,012 |
| General and administrative | 9,861 | 8,328 | 27,989 | 24,100 |
| Product design and development | 7,250 | 6,925 | 21,655 | 21,283 |
| Goodwill impairment | 4,576 | — | 4,576 | — |
| | <u>34,595</u> | <u>27,988</u> | <u>96,086</u> | <u>82,395</u> |
| Operating income (loss) | 7,118 | (5,680) | 3,125 | 4,365 |
| Nonoperating (expense) income: | | | | |
| Interest (expense) income, net | (398) | 56 | (721) | 134 |
| Other expense, net | (1,380) | (793) | (2,335) | (2,613) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income (loss) before income taxes | 5,340 | (6,417) | 69 | 1,886 |
| Income tax expense (benefit) | 1,627 | (2,067) | 14,666 | 177 |
| Net income (loss) | \$ 3,713 | \$ (4,350) | \$ (14,597) | \$ 1,709 |
| Weighted average shares outstanding: | | | | |
| Basic | 45,387 | 45,223 | 45,320 | 45,263 |
| Diluted | 45,448 | 45,223 | 45,320 | 45,442 |
| Earnings (loss) per share: | | | | |
| Basic | \$ 0.08 | \$ (0.10) | \$ (0.32) | \$ 0.04 |
| Diluted | \$ 0.08 | \$ (0.10) | \$ (0.32) | \$ 0.04 |

Daktronics, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands)
(unaudited)

| | January 28, 2023 | April 30, 2022 |
|--|---------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 10,022 | \$ 17,143 |
| Restricted cash | 708 | 865 |
| Marketable securities | 530 | 4,020 |
| Accounts receivable, net | 115,840 | 101,099 |
| Inventories | 164,879 | 134,392 |
| Contract assets | 36,098 | 41,687 |
| Current maturities of long-term receivables | 1,716 | 2,798 |
| Prepaid expenses and other current assets | 8,770 | 14,963 |
| Income tax receivables | 3,259 | 603 |
| Total current assets | 341,822 | 317,570 |
| Property and equipment, net | 73,795 | 66,765 |
| Long-term receivables, less current maturities | 452 | 1,490 |
| Goodwill | 3,292 | 7,927 |
| Intangibles, net | 1,220 | 1,472 |
| Investment in affiliates and other assets | 33,071 | 32,321 |
| Deferred income taxes | — | 13,331 |
| TOTAL ASSETS | \$ 453,652 | \$ 440,876 |

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Daktronics, Inc. and Subsidiaries

Consolidated Balance Sheets (continued)

(in thousands)
(unaudited)

| | January 28, 2023 | April 30, 2022 |
|---|-----------------------------|---------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 70,592 | \$ 76,313 |
| Contract liabilities | 97,703 | 90,393 |
| Accrued expenses | 32,711 | 34,959 |
| Warranty obligations | 10,998 | 11,621 |
| Income taxes payable | 382 | 408 |
| Total current liabilities | 212,386 | 213,694 |
| Long-term warranty obligations | 19,216 | 17,257 |
| Long-term contract liabilities | 12,674 | 10,998 |
| Other long-term obligations | 6,397 | 7,076 |
| Line of Credit | 23,638 | — |
| Deferred income taxes | — | 287 |
| Total long-term liabilities | 61,925 | 35,618 |
| SHAREHOLDERS' EQUITY: | | |
| Preferred Shares, no par value, authorized 50,000 shares; no shares issued and | — | — |
| Common Stock, no par value, authorized 115,000,000 shares; 47,373,959 and 46,733,544 shares issued at January 28, 2023 and April 30, 2022, respectively | 63,002 | 61,794 |
| Additional paid-in capital | 49,719 | 48,372 |
| Retained earnings | 82,011 | 96,608 |
| Treasury Stock, at cost, 1,907,445 shares at January 23, 2023 and April 30, 2022, respectively | (10,285) | (10,285) |
| Accumulated other comprehensive loss | (5,106) | (4,925) |
| TOTAL SHAREHOLDERS' EQUITY | 179,341 | 191,564 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 453,652 | \$ 440,876 |

Daktronics, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)
(unaudited)

| | Nine Months Ended | |
|--|---------------------|---------------------|
| | January 28, 2023 | January 29, 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | \$ (14,597) | \$ 1,709 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation and amortization | 12,543 | 11,544 |
| Gain on sale of property, equipment and other assets | (588) | (737) |
| Share-based compensation | 1,487 | 1,503 |
| Equity in loss of affiliates | 2,596 | 1,966 |
| Provision (recovery) for doubtful accounts, net | 674 | (600) |
| Deferred income taxes, net | 13,028 | 151 |
| Goodwill impairment | 4,576 | — |
| Change in operating assets and liabilities | (29,206) | (41,000) |
| Net cash used in operating activities | (9,487) | (25,464) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (21,809) | (10,024) |
| Proceeds from sales of property, equipment and other assets | 612 | 838 |
| Purchases of marketable securities | — | (4,045) |
| Proceeds from sales or maturities of marketable securities | 3,490 | — |
| Purchases of equity and loans to equity investees | (3,240) | (6,695) |
| Net cash used in investing activities | (20,947) | (19,926) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings on notes payable | 283,115 | — |
| Payments on notes payable | (259,477) | — |
| Principal payments on long-term obligations | — | (200) |
| Payments for common shares repurchased | — | (3,000) |
| Proceed from exercise of stock options | — | 8 |
| Tax payments related to RSU issuances | (140) | (199) |
| Net cash provided by (used in) financing activities | 23,498 | (3,391) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (342) | 98 |
| NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | (7,278) | (48,683) |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH: | | |
| Beginning of period | 18,008 | 80,402 |
| End of period | \$ 10,730 | \$ 31,719 |

Daktronics, Inc. and Subsidiaries

Net Sales and Orders by Business Unit

(in thousands)
(unaudited)

| <i>(in thousands)</i> | Three Months Ended | | | | Nine Months Ended | | | |
|-------------------------------|---------------------|---------------------|------------------|-------------------|---------------------|---------------------|------------------|-------------------|
| | January 28, 2023 | January 29, 2022 | Dollar Change | Percent Change | January 28, 2023 | January 29, 2022 | Dollar Change | Percent Change |
| Net Sales: | | | | | | | | |
| Commercial | \$ 49,967 | \$ 40,095 | \$ 9,872 | 24.6 % | \$ 127,132 | \$ 107,339 | \$ 19,793 | 18.4 % |
| Live Events | 67,748 | 39,057 | 28,691 | 73.5 | 193,370 | 150,840 | 42,530 | 28.2 |
| High School | | | | | | | | |
| Park and Recreation | 28,312 | 23,721 | 4,591 | 19.4 | 106,127 | 84,362 | 21,765 | 25.8 |
| Transportation | 17,578 | 15,823 | 1,755 | 11.1 | 53,797 | 42,434 | 11,363 | 26.8 |
| International | 21,370 | 20,862 | 508 | 2.4 | 63,908 | 63,792 | 116 | 0.2 |
| | \$ 184,975 | \$ 139,558 | \$ 45,417 | 32.5 % | \$ 544,334 | \$ 448,767 | \$ 95,567 | 21.3 % |
| Orders: ⁽¹⁾ | | | | | | | | |
| Commercial | \$ 28,737 | \$ 47,012 | \$ (18,275) | (38.9)% | \$ 119,126 | \$ 143,699 | \$ (24,573) | (17.1)% |
| Live Events | 61,011 | 79,478 | (18,467) | (23.2) | 193,763 | 169,665 | 24,098 | 14.2 |
| High School | | | | | | | | |
| Park and Recreation | 28,097 | 35,884 | (7,787) | (21.7) | 97,574 | 107,246 | (9,672) | (9.0) |
| Transportation | 13,525 | 20,810 | (7,285) | (35.0) | 45,812 | 56,854 | (11,042) | (19.4) |
| International | 17,005 | 31,605 | (14,600) | (46.2) | 45,130 | 82,778 | (37,648) | (45.5) |
| | \$ 148,375 | \$ 214,789 | \$ (66,414) | (30.9)% | \$ 501,405 | \$ 560,242 | \$ (58,837) | (10.5)% |

Reconciliation of Free Cash Flow *

(in thousands)
(unaudited)

| | Nine Months Ended | |
|---|---------------------|---------------------|
| | January 28, 2023 | January 29, 2022 |
| Net cash used in operating activities | \$ (9,487) | \$ (25,464) |
| Purchases of property and equipment | (21,809) | (10,024) |
| Proceeds from sales of property and equipment | 612 | 838 |
| Free cash flow | \$ (30,684) | \$ (34,650) |

* In evaluating its business, Daktronics considers and uses free cash flow as a key measure of its operating performance. The term free cash flow is not defined under accounting principles generally accepted in the United States of America ("GAAP") and is not a measure of operating income, cash flows from operating activities or other GAAP figures and should not be considered alternatives to those computations. Free cash flow is intended to provide information that may be useful for investors when assessing period to period results.

Reconciliation of Adjusted Operating Income (loss)*

(in thousands)

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | January 28, 2023 | January 29, 2022 | January 28, 2023 | January 29, 2022 |
| Operating income (loss) (GAAP Measure) | \$ 7,118 | \$ (5,680) | \$ 3,125 | \$ 4,365 |
| Plus goodwill impairment | 4,576 | — | 4,576 | — |
| Adjusted operating income (loss) (non-GAAP measure) | \$ 11,694 | \$ (5,680) | \$ 7,701 | \$ 4,365 |

* In evaluating its business, Daktronics considers and uses adjusted operating income as a key measure of its operating performance. The term adjusted operating income is not defined under GAAP and is not a measure of operating income, cash flows from operating activities, or other GAAP figures and should not be considered alternatives to those computations. We define non-GAAP adjusted operating income as operating income plus asset impairments. Management believes non-GAAP adjusted operating income is a useful indicator of our financial performance and our ability to generate cash flows from operations. Our definition of non-GAAP adjusted operating income may not be comparable to similarly titled definitions used by other companies. The table above reconciles non-GAAP adjusted operating income to comparable GAAP financial measures.