



**Orion Energy Systems, Inc.
Shareholders' Letter and Annual Report on Form 10-K
Fiscal Year Ended March 31, 2022**

To Our Valued Shareholders,

Orion made solid progress advancing our long-term growth goals in FY 2022. Despite challenging business conditions that caused several customers to delay larger LED lighting and controls projects in the second half, Orion grew FY 2022 revenues 6.5% to \$124.4 million. We further diversified our revenue base, growing revenue outside of our largest customer, a major national retailer, by almost 25% over FY 2021. This progress was supported by new customer wins, 71% revenue growth from our energy service company (ESCO) partner channel, and \$5.8 million of revenue from our new maintenance services business.

While supply chain and other challenges continue to impact near-term visibility on customer decision making, we believe Orion has entered FY 2023 as a stronger, more diversified business. We have a solid base of large national customers, expanding ESCO and distribution channels, a broader array of products and services and an increasingly impressive track record of success to support our long-term growth objectives. We continue to build our base of national accounts, who are attracted to our high product quality, custom engineering, industry leading energy efficiency, domestic manufacturing, and turnkey design, build and install capabilities – all delivered with the highest levels of customer service. We are building on our unique ability to execute large national LED lighting and controls projects and are now able to provide ongoing lighting and electrical maintenance services to expand our customer value proposition. We believe our capabilities and growing reputation for high quality products and large project execution position us well to build on our success.

Importantly, in an environment of increasing inflationary pressures and high energy costs, our solutions enable customers to achieve core business and environmental goals of reducing energy consumption and their environmental footprint while also creating a better and safer environment for employees and customers.

We also achieved solid progress enhancing many of our key financial metrics. Our gross profit percentage improved to 27.3% in FY 2022 from 25.8% in FY 2021, benefitting from a more favorable mix of product focused on fewer LED fixture models, price increases and production efficiencies. Our FY 2022 net income improved to \$6.1 million, or \$0.19 per share, compared to FY 2021 net income, excluding a large one-time tax benefit of \$5.2 million, or \$0.17 per share.

Orion's balance sheet and financial position remain strong, ending FY 2022 with over \$35 million of liquidity, including \$14.5 million of cash and cash equivalents and \$21 million of availability on our credit facility with no material debt outstanding. Orion's net working capital balance improved to \$32.9 million at the close of FY 2022 versus \$26.2 million at the end of FY 2021. This financial strength positions Orion to navigate near-term economic uncertainties and to pursue organic growth as well as external opportunities, such as our acquisition of Stay-Lite Lighting in January 2022.

Orion Maintenance Services

Our recently launched lighting and electrical maintenance services business gained critical mass during FY 2022 and now offers an important long-term opportunity to build a growing base of recurring maintenance services revenue. Lighting and electrical maintenance services allow more regular, ongoing customer contact and provide an ideal complement to our existing business, allowing us to extend our expertise and customer value proposition, while building a growing base of recurring services revenue.

FY 2022 was our first full year of maintenance services operations and included the acquisition of Stay-Lite Lighting at the start of our fourth quarter to expand our maintenance team, customer base and create a national service footprint. Our maintenance services business is expected to grow to revenue of more than

\$20 million in FY 2023, up from \$5.8 million in FY 2022. Growth in lighting and electrical maintenance services should also provide a base of steady, recurring revenue and balance our LED lighting solutions and turnkey project business.

Awards and Recognition

Innovation remains at the core of Orion's vision as we seek to develop new and improved products that bring enhanced value to our customers and their evolving needs. Our innovative products and technologies were acknowledged by several awards over the past year.

Orion's connected LED troffer retrofit fixture was recognized in the concept category of the American Made Challenges L-Prize competition, sponsored by the US Department of Energy, NREL and Pacific Northwest National Laboratory. This highly-efficient, networked LED luminaire with advanced controls, including Li-Fi technology, can retrofit an existing fluorescent luminaire in less than two minutes. For those unfamiliar, Li-Fi is analogous to Wi-Fi, except it uses light waves to transmit data indoors.

Our ISON PureMotion UVC and ISON PureMotion Light products each won New Product Awards from Spaces4Learning, a leading publication for education institutions, service providers and others interested in creating high-quality educational facilities. Our PureMotion product line is designed for conventional dropped-ceiling grids to sanitize air in schools, medical facilities, offices and other shared public spaces. PureMotion UVC combines air circulation with a sealed ultraviolet light ray chamber to safely kill viruses, including COVID-19 along with germs, bacteria and mold. Our PureMotion line is an exciting opportunity to build on our reputation for healthy, safe and sustainable workplace solutions and to expand our customer and market reach.

Additionally, Orion's ISON LED high bay light fixture was ranked #1 for energy efficiency and our Harris LED High Bay Star Line was ranked #2 in the Ultra-high Lumen category by [inside.lighting](#), a highly reputable online industry resource for lighting professionals.

Orion was also a finalist for the Wisconsin Manufacturer of the Year awards, and we are very proud to be in the company of such high-quality businesses in our home state.

FY 2023 and Longer-Term Outlook

Following a year of growth and improved performance, Orion has a realistic path to matching or exceeding our FY 2022 revenue performance in FY 2023 while continuing to diversify our revenue sources, though current uncertainties around the timing of larger projects make it difficult to provide specific revenue guidance. We expect revenue from our largest customer to decline to approximately \$25 million in fiscal '23 following the completion of the turnkey LED lighting and control retrofit of the bulk of their U.S. store footprint. We are optimistic regarding the potential for strong growth in our business outside of this customer to offset this revenue decline. Our path to matching or exceeding fiscal '22 revenue would result in organic revenue growth of approximately 50% outside of our largest customer.

Longer term, Orion remains committed to a strategic plan to grow the business, via organic and external growth, to a \$500 million annual revenue business over approximately five years. Our plan assumes double digit organic growth, supplemented by strategic acquisitions, partnerships and other ventures.

Orion will continue to expand its expertise and capabilities to address our customers' current and evolving needs, as a one-source solution in existing LED lighting systems, controls, and related lighting and electrical maintenance services – over the entire product life cycle. The connected ceiling grid provided by our lighting systems can host a range of energy management, data collection and performance monitoring solutions and analytics designed to drive an improved customer experience, as well as operational and financial performance.

We look to continue our team's success in mitigating the impact of supply chain and pandemic related challenges on our own operations. Efforts in supply chain management, including expanded sourcing options for critical materials and components, advanced purchasing of key supplies, components and materials, and ongoing cost management discipline have enabled us to substantially mitigate impacts on our business. Our proactive measures have enabled us to continue to meet our customer requirements, including the delivery of most products in two weeks or less. Orion's ability to meet short order timelines, combined with turnkey project and maintenance service solutions, puts us in a strong position for an expected rebound in customer activity as business conditions normalize and customers reengage on current and new projects.

Sustainability - Environmental, Social and Governance (ESG) Update

With a history of delivering improved workplace environments, safety and reduced energy consumption, Orion has long been committed to fundamental ESG concepts. In response to the growing interest in enhanced ESG reporting, this year we are providing stakeholders with our initial Sustainability Report, which will be updated annually. Core values that drive our ESG thinking include a **One Team** mentality – meaning Orion is nothing but the sum of our employees, as a collective team. We also embrace **Innovation and Change** that leverage the benefits of new technology to meet our customers' evolving needs with enhanced efficiency, safety and a lower environmental impact. Finally, we embrace a **Customers For Life** philosophy, as a core value, in which we view our customer and partner relationships, as ongoing and perpetual. We are committed to serving these key relationships to meet their increasing needs for operating performance, sustainability, energy savings, and carbon footprint reduction.

We thank you, our shareholders and our partners, for your continuing support of Orion Energy Systems.

Sincerely,

A handwritten signature in black ink that reads "Mike Altschaefl". The signature is written in a cursive, flowing style.

Mike Altschaefl
CEO and Board Chair
Orion Energy Systems, Inc.
June 21, 2022

Executive Officers

Michael W. Altschaefl

Chief Executive Officer and Board Chair

Michael H. Jenkins

Executive Vice President and Chief Operating Officer

John Per Brodin

Executive Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer

Scott A. Green

President, Orion Services Group

Board of Directors

Michael W. Altschaefl (4)

Chief Executive Officer and Board Chair

Anthony L. Otten (1), (2), (3a), (5)

Retired Chief Executive Officer, Versar, Inc., Managing Member, Stillwater, LLC

Alan B. Howe (1)

Managing Partner, Broadband Initiatives, LLC

Ellen B. Richstone (1a), (2), (3)

Director, National Association of Corporate Directors (NACD-New England), Cognition Therapeutics, Inc., Superior Industries International and eMargin Corporation

Mark C. Williamson (2a), (3)

Retired Partner, Putnam Roby Williamson Communications of Madison, Wis.

(1) *Audit and Finance Committee*

(2) *Compensation Committee*

(3) *Nominating and Corporate Governance Committee*

(4) *Board Chair*

(5) *Lead Independent Director*

(a) *Committee Chair*

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NASDAQ Capital Market: OESX

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