LightPath Technologies

Fourth Quarter and Year-End 2020 Financial Results 2017 Conference Call

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CORPORATE PARTICIPANTS

Sam Rubin - *President, Chief Executive Officer*

Don Retreage - *Chief Financial Officer*

PRESENTATION

Operator
Good afternoon, and welcome to the LightPath Technologies Fiscal Fourth Quarter and Year-End 2020 Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal the conference specialist by pressing the * key, followed by 0. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press *, then 1 on your touchtone phone, and to withdraw your question, please press *, then 2. Please also note today's event is being recorded.

I will now pass the call off to Don Retreage, Chief Financial Officer of LightPath Technologies. Please go ahead.

Don Retreage
Good afternoon. Before we get started, I would like to remind you that during the course of this conference call, the company will be making a number of forward-looking statements that are based on current expectations and involve various risks and uncertainties that are discussed in this periodic SEC filings. Although the company believes that the assumptions underlying these statements are reasonable, any of them can prove to be inaccurate, and therefore, there can be no assurance that the results will be realized. In addition, references may be made to certain non-generally accepted accounting principles or non-GAAP measures, for which you should refer to the appropriate disclaimers and reconciliations in the company's SEC filings and press releases.

Following management discussions, there will be a formal Q&A session open to participants on the call. I would now like to turn the conference over to Sam Rubin, LightPath's President and Chief Executive Officer. Sam, please go ahead.

Sam Rubin
Thank you, and good afternoon. Welcome to LightPath Technologies' fiscal 2020 fourth quarter financial results conference call. Our financial results press release was issued after the market closed today and posted to our corporate website. Following my remarks, our CFO, Donald Retreage, will further review our financial results and provide more perspective on key areas. We will then conduct a Q&A session.

Now, on to my remarks. Our fiscal 2020 fourth quarter and full year results reflect a consistent and continuing improvement and growth of our business, while at the same time navigating the dynamic and changing conditions caused by the effects of COVID-19 style of business, our customers, and our supply chain.

Classified as an essential business, we remained open and operating to the extent possible. We continued to take all precautions to ensure that our employees remain safe and that our business operations continue. Through the fall, we are very encouraged to have ended the year by delivering growth in revenue, backlog, gross margin, gross profit, net income, EBITDA, and the cash balance, while reducing our total debt and financial lease balance and improving our cost structure with a reduction in operating expenses. All of this was achieved despite nearly six months of the fiscal year being impacted by COVID-19.

Similar to our results in the previous quarters, our fourth quarter results continued to show consistent improvement year-over-year and consistent results throughout our fiscal year. The gross margin for the quarter ended at 39%, up from 32% in Q4 2019, while the EBITDA margin grew to 19%, up from negative 3% the same period the previous year.

These results reflect savings from the integration of the ISP acquisition and other efficiency-related activities, as well as the favorable product mix in our PMO business. Additionally, our backlog grew to $19.1 million, up from $17.1 million at the end of fiscal 2019 but down from $20 million the previous quarter. The sequential decline and backlog are attributed primarily to the annual blanket quarter from our largest customer, which typically is renewed in our fiscal second quarter, ending December 31.

While the 4% growth in revenue year-over-year is definitely a positive outcome, our actual shipments during the quarter varied compared to plan due to unexpected rescheduling requests by some customers as a consequence of the impact of COVID-19. As we have mentioned in earlier communications over the last few months, we have been capacity constraint in some parts of our business since February, primarily due to the demand from 5G infrastructure development deployment, a trend that we see continuing. We have been addressing those capacity constraints through the use of overtime, through acceleration of investments in production equipment, and through careful scheduling and planning of our production capacity to address all sales orders, requiring a very focused effort on both our internal and external supply chain.

However, due to COVID-19, some customers have experienced either fluctuating demand or some unexpected impact to the operations or other parts of the supply chain. Given the nature of the manufacturing process and added complexity of being capacity constrained, our manufacturing schedule cannot always adjust fast enough to such unexpected changes, leading to temporary increase in our inventory as seen in our inventory levels growing to $8.9 million. While we strive to be agile and adjust quickly to changes in demand, we expect for some of these variations to continue in the coming months until demand and supply chain return to a steady state.

In parallel to navigating the COVID-19-impacted economy and supply chain, our team has worked on developing a new strategic direction for LightPath that was initiated following my appointment as CEO in March 2020. This strategy has now been developed, and this is one based on our strengths and our core capabilities to address the largest and fastest growing trends in our industry for visible and infrared optics.

I'd now like to discuss some key elements of this strategy. First, addressing support by diversified photonics market, we're going to lead the efforts to capitalize on optics as an enabling technology. We recognize that the opportunity for optics and optical assemblies has changed over the past several years. Now, optics or more generally photonics and optical technologies are increasingly pervasive across industries and markets. Optics is not an industry vertical in itself, but an enabling technology which spans industries well beyond telecommunication, for which we are seemingly known. Optics are the key technology in industries from automotive, defense, medical, surveillance, industrial equipment, telecommunication, and consumer products, just to name a few, all of which are industries we already serve. As such, the market opportunity for what we do at LightPath is enormous and global and is constantly expanding, as other industries and companies find applications for optics in their products and industry.

Second, we're going to be focusing on our competitive anchors, including our differentiated design capabilities, molding IP, reality of manufacturing technologies, and low-cost vertically integrated global manufacturing. We will prioritize our efforts around the differentiation we bring to the markets and our customers and others that others cannot offer. And we will constantly seek to add to those capabilities as needed.

Third, we will be centered around continuous improvement through operational excellence, leading to margin and possibility optimization and strengthening of our overall financial position. This will encompass both short-term and long-term initiatives throughout the organization and be supported by a culture which values results and accountability.

Fourth, we will make investments that improve capacity and factory floor efficiency, engineering expertise, and leverage our human capital. We will make the necessary investments in our people to enable our strategy with world-class optical design and engineering talent, including a salesforce that can focus and prioritize customer opportunities, which supports our strategic goals.

Finally, and perhaps most important strategic directive is to mobilize around the integrated solutions orientation for high-value customers. In doing so, we will leverage our expertise to focus on client opportunities that are in line with our new strategic direction and ultimately improve our financial performance. We will leverage our unique capability, using our expertise in optical design and manufacturing to create solutions for customers rather than components. Over time, this will promote a richer business model supported by longer-term partnership with our customers.

In the coming weeks, we will begin a comprehensive alignment of the organization to our new strategic direction, including a review of our capabilities, structure, processes, and all other aspects required by our team to be positioned to execute on this direction. Some of those opportunities for improvement and operational excellence have already been identified shortly after I joined the company, and we began executing upon them immediately. One such area, for example, includes our cash management, where through the implementation of lesser processes and controls we have been able to increase our cash position to $5.4 million, while at the same time continuing to invest in capacity expansion, while utilizing our line of credit for financial flexibility and reducing our total debt and operating lease obligations.

Strategic priorities evolve, and this is the beginning of the process. LightPath will change the operations and execution culture to be best-in-class, and we will choose the highest-value OEM customers and business opportunities to invest in. The enhanced approach will provide even more value to our customers, great opportunities to our employees, and better financial returns to our shareholders. As we continue to implement operational improvements throughout our organization and fully execute upon the outcomes of our comprehensive strategic review, we expect both near-term and long-term impact towards further improving upon our growth and key financial indicators beyond what we have achieved to date.

Now, I'll pass the call over to our CFO, Don Retreage, to provide more detail on some of the other aspects of our fourth quarter and full year 2020 financial results. Don?

Don Retreage
Thank you, Sam. First, I would like to mention and remind all that much about the information we're discussing during this call is also included in press release issued earlier today and in our 10-K filed with the SEC. I encourage you to visit our website at lightpath.com and specifically the section titled, “Investor Relations.”

Now, on to my remarks pertaining to the fourth quarter and year-end fiscal 2020. Sam's remark covered some of our financial performance along with key elements of our strategic direction. So, I will be specifically discussing key financial areas.

Revenue for the first quarter of fiscal 2020 was approximately $9.1 million, up from $8.7 million in both third quarter 2020 and fourth quarter 2019. For the year, revenues were $35 million, up from $33.7 million in fiscal 2019. IR product revenue was $4.8 million in Q4 2020 or 53% of total revenue, up from $4.3 million or 50% in the third quarter 2020 and $4.7 million or 54% of the total in the prior-year period. Visible precision molded optics or PMO products revenue in fourth quarter 2020 was $3.9 million or 43% of the total, same as third quarter 2020 or 44% of the total in third quarter 2020 and $3.5 million or 40% of the total in the fourth quarter 2019. For the year, IR product revenues were $18.1 million or 52% of the total, up 5% from about $17.2 million or 51% of the total in the fiscal 2019. PMO revenues were $14.6 million or 42% of the total in fiscal 2020 and up 4% from about $14 million or 42% of the total prior year.

Demands of our revenue for the fourth quarter and full year in respective periods were from specialty products and non-recurring engineering products, which varied greatly from quarter-to-quarter and were substantially smaller contributors to the consolidated revenue. With respect to our margin profile, generally speaking, PMO products are smaller and almost entirely molded. So, we have faster turnaround times, higher volume applications, and more automated processing. These products are also generally low in price. We historically have had margins averaging in the 40% to 50% range. This group represents about 42% of our total revenue in fiscal 2020. You can see that of the two primary segments, PMO is a small group with the higher margin.

The IR product group represents a larger and faster growing market opportunity. IR margins have historically been in the 20% to 35% range with our new molded IR lenses which use our proprietary internally developed BD6 material on the top side, if not able to go higher with efficiencies. As part of our gross margin improvement strategies, we have been aggressively working at marketing new products and targeting new customers, using line of innovative BD6 while attempting to convert existing customers to the extent possible from using our germanium lenses to our BD6 lenses.

Moving on, gross margin in the fourth quarter of fiscal 2020 was $3.5 million, an increase of 24% as compared to approximately $2.8 million in the same quarter of prior fiscal year. Total cost of sales was $5.6 million for the fourth quarter 2020, down from $5.9 million in the prior year, although our total cost of sales is meaningful when you consider that the total sales increased 4%. Gross margin under the percentage of revenue was 39% for the fourth quarter 2020, as compared to 32% in the fourth quarter 2019. The increase in gross margin and down as a percentage of revenues is primarily driven by the increase in sales and an improved cost structure, along with elimination of elevated costs, including labor, manufacturing, inefficiencies, and increased overhead expenses associated with the relocation of our New York facility in the prior-year period.

For the year, gross margin for fiscal 2020 was $13.8 million, an increase of 11% from $12.5 million in fiscal 2019. The total cost of sales was approximately $21.1 million in fiscal 2020, slightly lower than $21.2 million in the prior year. Gross margin as a percentage of revenue was 40% for the 2020 compared to 37% for fiscal 2019. The increase in gross margin reflects the changes to our cost structure, as well as improvements made in the second, third, and fourth quarters of fiscal 2020 after several factors negatively impacted the first quarter of fiscal 2020. As in the fiscal third quarter, demand in aggregate has been strong. Although there are pockets of weakness that emerge as followed from COVID-19, which includes, as Sam mentioned, the delivery and processing challenges, we continue to enjoy strong demand from secular or long-term market applications including 5G. For this product, we believe we could have had large order flow if we had not been capacity constrained. Additional capacity has been added, and we're accelerating certain build-ups.

Our production volumes are growing. In the fourth quarter 2020, we produced 1.2 million lenses, up from 904,000 lenses in Q3 of 2020, 868,000 lenses made in second quarter 2020. Unit volume sold in the fourth quarter of 2020 was up 62% as compared to the fourth quarter of fiscal 2019 and up 41% year-on-year. The total units sold in 2013 were $3.6 million, up from $2.6 million last year. During the fourth quarter of fiscal 2020, total operating expenses was approximately $2.9 million, a decrease of $1 million or nearly 26% as compared to $3.9 million in the same period of the prior fiscal year. The largest reduction came from SG&A, which decreased from about 900,000, and new product developments, which decreased by about 117,000. The change from the prior year reflects the elimination of non-recurring expenses from last year, which are related to the relocation of the New York facility, as well as other reduced personnel and overhead costs from synergies and, to a lesser extent, limited travel and marketing expenses from COVID-19 restrictions.

The product development expense variation reflects shifting of personnel to newly created product management function, which is also in our selling, general, and administrative expenses. For the full year, total operating expenses in 2020 was $11.7 million, down $2 million or about 15% from $13.7 million in 2019. SG&A was down $1.5 million, and product development were down 300,000 for reasons similar to the changes in the fourth quarter. It should also be noted that expenses in the third quarter were reduced by gains in disposal of equipment of approximately 136,000, which is masking some of the savings when compared to total 2020 expenses.

Our consolidated corporate income tax in the U.S. is shielded by our net operating loss carry-forward benefits of approximately $74 million on June 30, 2020. But we do have to pay income tax to the countries of certain foreign subsidiaries. Income tax expense for the fourth quarter of fiscal 2019 included the reversal of $406,000 of income tax benefits recorded in the first half of fiscal 2019 due to the change in company's estimated utilization of U.S. net operating loss carry-forward benefits for 2019. During the fourth quarter of fiscal 2020, the company recorded income tax expense of $90,000, as compared to $496,000 in the same period of the prior fiscal year. During the fiscal 2020, the company recorded income tax expenses of $764,000, primarily related to the income tax from operations in China and Chinese withholding tax associated with the intercompany dividend.

With the higher revenues, strong margin, management of expenses, and lower income tax, net income for the fourth quarter of fiscal 2020 was $657,000, compared to a net loss of $1.8 million for the fourth quarter of fiscal 2019, which was negatively impacted by elevated costs, including labor costs, manufacturing inefficiencies, and increased overhead expenses associated with the relocation of the company's New York facilities. We're operating far more efficiently and profitably, having completed that transition, improved our cost structure, and increased revenue margins. Net income for the year was $867,000, up from a net loss of $2.7 million.

Moving to the balance sheet and cash flow-related items, capital expenditures, including equipment financed through leases, was $938,000 in the fourth quarter 2020 and $2.4 million for the year, up from $326,000 and $2.5 million, respectively in the prior periods. Given that we have been running at near capacity, we intend to continue to invest similarly in 2021.

Meanwhile, net cash provided by operation was $3.7 million for fiscal 2020, up from $411,000 in prior year, with fourth quarter 2020 contributing $1.8 million or about 49% of full-year amounts. Total debt, including finance leases, was reduced by approximately $650,000 or 10% in fiscal 2020 from June 30, 2019. Our cash balance on June 30, 2020, was $5.4 million, up from $4.6 million on June 30, 2019.

As of June 30, 2020, LightPath's 12-month backlog was $19.1 million, an increase of 11% from $17.1 million as of June 30, 2019. It should be noted that it is natural for our backlog to fluctuate during the year as a result of the timing of such bookings of large orders and annual renewals. The company has also undisclosed backlog of beyond 12 months.

On a final note, through the increase of our share price and market value, we're pleased to have been added to the resell of microcap index effect with the annual reconstitution on June 29, 2020.

With this review of our financial highlights and recent developments concluded, I will turn the call over to the operator so that we may begin with question-and-answer session.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press *, then 1 on your touchtone phone. If you are using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press *, then 2. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Marc Wiesenberger with B. Riley FBR. Please go ahead.

Marc Wiesenberger
Yes, thank you. Good afternoon. Very nice execution in the quarter. Currently, I think you have capacity to produce around 3 million molded lenses per year. Can you talk about the growth trajectory around the molding capacity and where you'd expect to deploy that capacity from a geographic perspective?

Sam Rubin
Yes, our capacity has definitely been growing in the last few months, as we've been investing in accelerating some of the offset investments in our manufacturing equipment. In the previous quarter, we stated that we're going to expedite some of those investments, which we have and which have come into effect during the last quarter and towards the end of the quarter. That's evident in the growth of our molded lenses, where we produced 1.2 million in the last quarter, which is a 33% growth compared to the quarter before that first quarter. Some of the investment of those molding machines and equipment are in our China facility. Some of them are in our U.S. facility. Other parts of the investment, as the targets of where we make the investments and where we need to expand capacity changes over time, some of those investments are going to be in our facility in Riga, as well as additional investments in the U.S.

Marc Wiesenberger
Great, thank you. Can you talk a little bit more about the progress of BD6 adoption from new customers, substitution from existing customers, your goals for BD6 and from your product portfolio, and then the resulting financial implications we should see in FY21?

Sam Rubin
Definitely. The results from this transition to BD6 are very encouraging, as we stand right now. By nature, the type of orders for BD6 versus germanium or altogether for thermal imaging are such that they take a long time to mature and to go from design to prototyping to actual production. One example is a large contract that we announced a few months ago and that only in the near future we're going to start shipping on that contract. And that contract alone has still taken quite a while to reach. We have a strong pipeline of opportunities. Some of them are in the quoting process, many of them in the design process in which we work very closely with the customer, and some of them in the prototyping process. We believe that we have some significant winds coming down the road. Most of them will start shipping within six months or so after we get the orders. Some of them might be shorter. Some of them might be longer.

Marc Wiesenberger
Sure. You talked about solid 5G demand from China. What other geographies are you seeing that are maybe starting to accelerate and have deployments, and can you talk about these other markets outside of China?

Sam Rubin
Yes, we provide our 5G lenses into the transceiver manufacturers and transponder manufacturers. Most of them are in Asia, and by the nature of it and by the structure of the supply chain, except for Chinese manufacturers where we know that they are vertically integrated and when we sell the lenses to them, we know that they mix in equipment. With other customers, we do not always know where the transceivers end in terms of geographical distribution. We do know that we supply the lenses into multiple manufacturers of 5G equipment and optical transceivers in such varieties that we know that we're definitely not concentrated in one country or another in terms of the deployment of 5G. We do not have the full information as to the geographical deployment.

Marc Wiesenberger
Sure, understood. And then last one from me. I think you've talked about the emerging use cases for optics and photonics role requires supplementary technologies. Can you talk about how LightPath is positioned to meet those additional demands? Thank you.

Sam Rubin
Absolutely. And part of the organization alignment that we're going to do, first of all now, is really ongoing efforts that will happen over the next few years. It's going to be to continuously look at such opportunities and see what supplemental products or technologies or capabilities we need in order to support them. This could be a situation where a customer is buying our lens or a customer's working with us on their complete solution and that solution also includes, say, a scanning mirror, which is their electronic component that moves the beam around, and we could be integrating that. It could be much something much closer to home, which we've already done a couple of times, integrating the detector, and actively aligning the entire optical system to deliver really a complete, closed, and hermetically sealed even optical system to the customer. By nature of it, optics going into so many different applications in so many places, the type of other components or other technologies that are needed would vary drastically from one customer to another. And as we go along, we're going to see which ones makes sense for us, where can we create real value for customers.

Marc Wiesenberger
Great, thank you very much.

Operator
The next question is from Gene Inger with ingerletter.com. Please go ahead.

Gene Inger
Hi, Sam and Don. Congratulations on navigating through the pandemic so far and keeping the company constantly operating and forgive my sore throat, but I'll try to ask a couple questions that Riley didn't touch on. You basically covered it, Sam, by discussing expanding beyond what some believe are relatively low margin commodity lenses, although you've already increased the margins on those. So, good job with that. A moment ago, you just mentioned integrated optics, which caused me to think of your colleagues and neighbors over at Luminar. I don't know that their going public affects you directly, but as they expand, do you foresee expanded relationship, or would you rather not talk about potential colleagues or customers?

Sam Rubin
Thank you, Gene. It's good to hear your voice, and thank you for the questions. First of all, I'll start by congratulating our neighbors at Luminar for going public and joining us from that circuit. It's always nice to have neighbors in the neighborhood share with us the stock exchange. We have a good relationship with many customers, and with many customers, we explore whatever value can we create to them, where is it that we can do more for them, and what are their needs. We cannot comment on specific customers for the most part, but we definitely look closely at the LIDAR marketplace and work with multiple companies developing different lighter solutions at many different levels. Some of them we discuss assemblies, some of them we discussed individual components with. It's obvious that LIDAR is going to become a major application for optics in the future. We cannot know until which company will win the LIDAR race, so the best thing we can do is work with as many companies as we can and support them by creating some value for them, either through our knowledge of optical engineering or by creating individual components or assemblies that will enhance their products.

Gene Inger
That is what I assumed you meant by integrated optics, and I was really a little bit excited to look forward to many of these things that are forthcoming.

Sam Rubin
So am I.

Gene Inger
I also wanted to inquire with regard to China. Your subsidiaries there are wholly owned, where I think in the past there was a large fund out of Shanghai at Pudong that was an investor. I'm assuming that is now retired, and the Chinese government does not have a problem with you operating as a wholly owned operation.

Sam Rubin
That's correct. Both companies are wholly owned by us 100%. We have 100% control of ours. We're not limited by any regulatory requirements related to our Chinese subsidiary by any of the countries or any of the sites related to that, and this is very similar to the experience I had in the six years I spent in China setting up and building from scratch a large company there. A WOFE, as it's called, a wholly owned foreign entity, is completely owned and controlled by the foreign other company, and that's exactly the case for LightPath with our two subsidiaries.

Gene Inger

I'm glad to hear that. Could you also expand? Lately, there is more tension between China and India, and companies like Paragon, which is Israeli with wireless backhaul, is benefited and because they do a lot of business in India with Vodafone, and I'm just wondering whether India barring Huawei because of the tensions between them actually works to your benefit with vertical integration in China since I assume much of what you make in China is sold to Huawei or other networking companies in the country.

Sam Rubin
Yes, we don't have much direct sales into India, and as mentioned in our previous comment, we often do not know the end use of our product since we're sometimes two or three layers removed from the end product. So in this case, the only insight I might have is really no insight in the sense of none of our business has been affected by any of that to our knowledge, and we don't see an impact from that.

Gene Inger
Glad to hear that. And my last question would just be Sienna's CEO a couple of weeks back when they made their numbers for the second quarter, but he gave pretty sloppy guidance going forward, and he talked about many of their customers in photonics, Lumentum is one. I think you deal with some of those customers, and that may be what you're reflecting when you're saying your customers rescheduling delivery. But it sounds like there's a lot of orders that aren't cancelled, but they're simply pushed into the future. So, isn't that giving an impression, I hope, that things are looking favorable as we adjust to the new normal and migrate into the third and fourth quarters?

Sam Rubin
Yes, we definitely meant exactly that, that orders are being pushed out due to most of the time logistical constraints. And if I would give one example, we have one customer that has production lines in three different facilities, and one facility had to close down. So, the other two facilities cannot pick up the entire capacity, and hence, one-third of the deliveries to them would get delayed until that facility re-opens. And that's one example. So, most of those are similar to that in that sense, that other unexpected factors are affecting the supply chain or the operations, and we're being asked to delay or hold off on the shipments. If it's with enough notice, we can hold production and move that capacity to use something else. If it's not, we hold it in inventory.

Gene Inger
Well, it sounds promising. And if anything, you had a good quarter. The EBITDA was great, and you did this despite these impediments with the pandemic. So, I'm looking forward to good growth and welcome your leadership and hope things go well.

Sam Rubin
Thank you. I appreciate that, Gene. Have a good day.

Operator
Again, if you do have a question, please press *, then 1 at this time.

Our next question is from Chris Vachovsky, a private investor. Please go ahead.

Chris Vachovsky
Hello, good afternoon. Congratulations on a great quarter.

Sam Rubin

Thank you.

Chris Vachovsky
So, regarding the 5G visible optics molded lenses, I'm not sure if I understood your statements correctly. But it seems like you're saying that there's pending demand even outside of your backlog. That is, if you tell your customers that they're holding back some orders, and if you tell them that you have more capacity, you'll get more orders. Is that correct?

Sam Rubin
Yes. You understood it correctly.

Chris Vachovsky
All right, that's, that's good to hear. And about those lenses, again the 5G lenses, now as data rates increase, the optics have to be more precise, and are you getting certain price increases on your lenses? And does that cause a bit of the increase in the gross margin? How is the pricing going?

Sam Rubin
Don?

Don Retreage
About the prices. In general, yes. However, our formula in the past has been to give discounts on high volume because we had different reasons. Obviously now at full capacity, those levels are leveled out, so there won't be any great price decreases aside from what the market is demanding. So, we do not foresee erosion of the price in the PMO lenses to affect us far more in the next two or three quarters.

Chris Vachovsky
All right, that's great to hear. And regarding your strategic realignment, should we be looking forward to noticeably higher SG&A costs because of that in the future?

Sam Rubin
Yes, that's a great question. And we've been very disciplined in both our growth and expenses on new capabilities and new manpower, as well as our capital investments where we need discipline to finance all of that for our own cash flow generated and being aware of profit margins or total EBITDA margins as we grow the business. And we intend to continue that discipline and be as much as possible in line with what we've been doing until now. That said, there might be required here and there some individual expenses on adding one or two specific skills by form of people or some unique equipment that might be a bit different and take somewhat longer to see the return. But we do not expect that to be significantly different.

Chris Vachovsky
All right, that's good to hear. It's about time we started making some real profits here. And another question. So, about those temporary push outs, can you just give us a view as to what you're experiencing now in August and September? And are you less affected now than you were in the in the past quarter?

Sam Rubin
I'd say it's still ongoing, as I noted in my remarks, and we believe it will continue to be somewhat ongoing until things stabilize. In most cases, it moves, I'd say, sort of between one customer and another. It’s not one specific customer that keeps pushing out and so on, except for maybe

one or two cases. But for the most part, we see it sort of a transitioning between different the geographical areas where it happens, different customers in different industries, and different periods. We try, as I mentioned, to be as agile as possible and to be on top of it. But given that we're running at capacity or capacity constraints at least in in the molding part of the business, and sometimes the supply chain and the time to turn around orders is long, there's sometimes not much we can do about it, and we just end up with having a bit more inventory than we care for.

Chris Vachovsky
Okay, I understand that. Well, that's it for me. Thanks again and good luck.

Sam Rubin
Thank you.

Don Retreage
Thank you.

Operator
We show no additional questions at this time, so I'd like to turn the conference back over to Mr. Rubin for any closing remarks.

Sam Rubin
Thank you for participating in today's call. Before we conclude, I wanted to thank Jim Gaynor, my predecessor for the 13 years of service as the CEO of LightPath and extend our best wishes to Jim and his family on his retirement.

We look forward to speaking with you next quarter. Until then, we will be participating at the Sidoti & Company Fall Virtual Investor Conference on September 23 and have been invited to speak at the MicroCap Club’s Virtual Leadership Summit on September 25. Thank you again, and goodbye.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.