LightPath Technologies, Inc.

Fiscal 2022 First Quarter Financial Results Conference Call

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CORPORATE PARTICIPANTS

Sam Rubin - *President, Chief Executive Officer*

Al Miranda - *Chief Financial Officer*

PRESENTATION

Operator
Good afternoon everyone, and welcome to the LightPath Technologies Fiscal 2022 First Quarter Financial Results Conference Call. Please note this event is being recorded.

At this time, I'd like to turn the conference call over to Al Miranda, Chief Financial Officer at LightPath Technologies. Please go ahead.

Al Miranda
Thank you. Good afternoon everyone. Before we get started, I'd 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, involve various risks and uncertainties, including the impact of COVID-19 pandemic that are discussed in its periodic SEC filings. Although the company believes that the assumptions underlying these statements are reasonable, any of them can be proven to be inaccurate, and there can be no assurances that the results would 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's discussion, there will be a formal questions and answer 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 Rubin
Thank you, Al. Good afternoon to everyone, and welcome to LightPath Technologies fiscal 2022 first quarter financial results conference call. Our financial results press release was issued after the market closed today, and posted to our corporate website. Before I begin my remarks, our new followers and shareholders, I would like to begin with a short recap of the last 18 months. In late 2019, the Board of Directors had decided that it is time to refresh and revitalize the company, and began the search for a new CEO.

As such, I joined as CEO in March 2020, following a career in building and growing companies in the photonics industry in the US, China and Israel. I had come to LightPath after 15 years at Thorlabs where we grew the company over that period of time from $30 million to $500 million in sales, through a combination of organic growth and acquisitions. Shortly after I joined LightPath, I recruited Mark Palvino, another industry veteran at the position of Vice President, of Global sales and marketing. Mark's focus on aligning and building our global sales teams was the major contributor in the 17% year-over-year growth we experienced in the first three quarters of fiscal 2021.

Also, during the first few quarters of fiscal '21, we focused on organizational alignment, and development of our new strategy which I will discuss in more detail shortly. It was during those efforts that we discovered irregularities in our China operation, which after a closer look turned out to be illegal activities by management of that subsidiary, misappropriating company money and re-routing customer orders to third party entities owned by them, thus effectively helping themselves to the company money. Activities that we now know has been ongoing for a very long period of time.

Following this, following these discoveries, we had immediately discontinued the work of those individuals, and began rebuilding the new management team in China. Around the same time in the spring of 2021, we had also recruited two other key members needed to round off our senior management team. Members who are accomplished executives with pedigrees from hyper-growth companies in the optical and electronics industries.

We added a new CFO Al Miranda, who was previously the President and CFO of Jenoptik, USA and VP Operations, Peter Greif, who joined us from a senior operations position in Jabil, where he managed operations of over 400 million dollars of their business. With these two senior executives on board, we have now turned our focus to recovering from the episode in China, and focusing on delivering on our new strategic direction. One that takes us from being a components manufacturer to a solutions provider, which will be the preferred partner for industries and customers looking to integrate photonics into their products.

With this overview, I believe the balance of our comments today will provide you with greater perspective on our progress and opportunities. LightPath's strategy, as we have developed over the last 12 months identifies that photonics as a technology is becoming widely adopted. LightPath is positioning itself to be the partner for such companies that look to use photonics in their products by being the main expert on subject matter. This change in direction takes LightPath from being a component supplier to a solutions partner, providing the design and manufacturing of complete optical subsystems based on our unique and strong design and manufacturing capabilities of optics.

Since the strategy is centered around the value creation for the customer, through domain expertise and capabilities, our technologists both in design and production become differentiators. Owning key technologies and design capabilities that utilize those unique technologies, allows us to design and deliver optical systems with overall lower cost of ownership, whether by being lighter, smaller or having better optical performance.

As such, we have been focusing our development effort on expanding our capabilities by building on our core capabilities and creating new differentiating technologies such that allow us to both deliver better systems and be known as a partner to go to, for the most advanced optical technologies. One such exciting capability which we announced a couple of weeks ago is the ability to use our molding technology for high volume production of freeform optics. Freeform optics as the name implies, are optical components that have significantly less constraint in shapes and dimensions and can therefore expand the range of what can be designed, also drastically reducing the size and weight of an optical system.

We'll illustrate with an example. Free lens is an optical element that can focus light, and the prism is an element that can combine beams of light. If freeform optical element could theoretically be one element that performs both functions of focusing light and combining light in one element, it's easy to see this way what an impact this can happen on optical systems.

Freeform optics had been a promising technology for a long time. One can find demonstrations of how freeform optics can potentially minimize the size of consumer products, such as augmented reality glasses, and laser projectors, taking all the way back as much as 10 years. However, as is often the case, the implementation of this in real life has been constrained by manufacturing technologies.

Making a freeform element could previously be done only by individually machining a piece of glass, one at a time on an extremely accurate CNC machine such as those called diamond turning lathes or alternatively by producing it by molding plastic into shape. The first in machining one by one is a very expensive technology and it's not scalable for consumer level volume. The second molding plastic is an inferior quality product that cannot transmit an image as a desired quality or withstand the requirements of durability and stability.

By extending our molding technology into molding high precision freeform glass optics, we are now enabling a slew of new applications and miniaturization of existing optical systems to a level that the optical community has been wishing for, for a long time. To see what impact this might be, it is enough to just Google the words freeform and AR glasses and read through some of the results to understand what people have been hoping for, for a long time. This is also evident by the multiple development contracts we have signed in recent months for development of freeform optics as well as optical assemblies based on freeform optics for customers in AR and LiDAR industries.

Overall, we're currently working on three major development projects in the AR and LiDAR space that include NOEs in hundreds of thousands of dollars to develop to those customers, smaller and lighter optical solutions for their next generation products. While each one of those customers has the potential of having annual sales anywhere from $1 million to $10 million a year, it's important to remember that the actual materialization of such contracts depends not only on our success with the technology, but also on the customer's product success. And most of those customers are in new fields that are just beginning to develop into commercial markets.

In addition to commercializing this very exciting technology and very cutting-edge, our team has also been developing other differentiating technologies, some of them in the materials side of the business, expanding our glass manufacturing capabilities into more areas, others in the field of optical coating by developing unique, highly durable coatings that can either protect the optical system better or also perform functions that currently are very challenging to perform.

One such example is heating the front element of any infrared camera in a system in order to defrost any ice on it. We're all familiar with heating the back window to defrost ice, but for the infrared part, there isn't actually any viable solution today. So, in this case, if an automotive…automotive is working in a below freezing temperature, such a unique coating as the one we're developing can provide a very affordable solution for heating that element and allowing it to operate below freezing temperatures.

Many of those technologies are the basis for some of the more promising projects we are working on in our Engineered Solutions Group, a growing part of the business, including, for example, a thermal imaging assembly for an automotive manufacturer, an optical communication assembly for a major satellite company, and more exciting projects which I hope to talk about in coming months.

All of those developments and more that we expect to announce in coming months are important differentiators that will bring more customers to us for our optical system business and allow us to design and deliver better optical solutions than what is available elsewhere, all of which translates to better margins, larger orders, and longer-term relationship with customers in comparison to what we have experienced in our historical component business. Needless to say, that wherever possible, we apply for patents to protect our technology and IT, in the last 12 months we have applied for three new patents on those new technologies.

Now, from the macro of strategy, I will switch to the micro of operations. As you all know, the previous quarter was incredibly challenging, as it was when we incurred the majority of the hits related to the changes we needed to do in China. Although we have taken steps to minimize the business impact from the termination of the management employees over there and transitioned to the new management personnel, we experienced some short-term adverse impact on domestic sales and operating expenses in China in the fourth quarter and somewhat also in the first quarter of this fiscal year.

We anticipate the impact on sales may continue for the next one to two quarters. Nevertheless, we are on track with our recovery in performance on a consolidated basis as revenues improve to the greater than $9 million in this first quarter, a nearly 10% improvement from the previous fourth quarter, while our gross margin as a percentage of sales increased by 10 points sequentially, hence expenses in China have also significantly declined. Overall, I would say that we are pretty much where we thought we could be in terms of recovery from those events and see things continuing to improve in coming quarters.

Our addition of coating capabilities to the facility in Riga, Latvia, which we talked about a few quarters ago, is now complete, allowing for cost savings that will flow to the bottom line, as well as enabling us to tap into the defense market in Europe, a market which we could not sell into prior to that.

Before passing the call to our CFO, Al Miranda, I'd like to remind the shareholders of records that our annual meeting will be taking place virtually on November 11, exactly one week from today. In addition, for all our followers and prospective investors, we will be presenting at the Ladenburg Thalmann Virtual Technology Expo, on November 18, and the Benchmark company discovery one on one conference on December 2.

Now, Al, If you could please walk us through the financial results in the first quarter.

Al Miranda
Thank you Sam. I'd like to remind everyone that much of the information we're discussing during this call is also included in our press release issued earlier today and will be included in the 10Q. I encourage you to visit our website at lightpath.com. So, Sam just covered the highlights of our strategy, new management team, the market opportunities, and how we are progressing. I will discuss some of the primary financial performance metrics and provide additional color on them to better assist investors in analyzing the company.

As a short reminder in Q4 '21, we had been significantly impacted by the transition of business conditions in China, and some of the financial impact was also felt as we indicated it would last quarter, as Sam just said. Revenue for the first quarter of fiscal 2022 was $9.1 million, that's down 4% from the same period of the prior fiscal year, but up almost 10% from the fourth quarter of fiscal 2021.

Sales of infrared products comprised 54% of the company's consolidated revenue in the first quarter of fiscal 2022 as compared to 50% of consolidated revenue in the same period of the prior fiscal year. Visible Precision Molded Optics, PMO, product sales represented 42% of consolidated revenues in the first quarter of fiscal 2022 as compared to 45% in the same period of the prior fiscal year. Specialty products continue to be a small component of the company's business, representing 4% of the consolidated revenues in the first quarter of fiscal 2022, as compared to 5% in the same period of the prior fiscal year.

IR revenue represents the largest component of our sales. Revenue generated by IR products was approximately $4.9 million in the first quarter of fiscal 2022, an increase of approximately

$163,000 or 3%, compared to $4.7 million in the same period of the prior year. The increase in revenue is driven by sales of molded IR products primarily to customers in the industrial markets.

PMO sales were $3.8 million, a decrease of 11% from prior year period, as the telecom sector revenues, including 5G remain soft in the quarter. However, PMO product sales increased by 30% sequentially from the fourth quarter. This is clearly a step back in the right direction. Our comparative year-over-year sales are down for PMO products, that's primarily in telecom, products sold through catalogue, distribution channels as well as sales to customers in industrial and medical industries were actually up. Specialty revenue is sort of a catch all products that don't fit the other two categories and represent a very small inconsistent component of our consolidated revenues.

Specialty also includes non-recurring engineering services, projects. So, this is a different type of revenue altogether. We expect to see an increase in non-recurring engineering revenues this fiscal year, driven by the need to engineer solutions for new products like freeform molded lenses, as Sam mentioned, one of the key technologies that we're bringing to market. As we develop these types of products and deliver prototypes and they are accepted and qualified, we would then expect to receive production orders, where we manufacture in quantity.

At that time, the revenue would most likely be reflected in their respective product categories either IR or PMO. Each of the product groups has a very different margin profile. PMO typically is higher due to our molding, which enables mass production in a more automated machine to process. IR historically was more manually produced, but with the growth in our molding technology as applied to IR products being made from our proprietary BD6 material, the margins will increase from both the advantages of the material and the automated molding process. So, we expect to see margins continue to improve regarding IR. Specialty product margins will vary based on the project.

Our consolidated gross margin as a percentage of revenue was 35% for the first quarter of fiscal 2022 compared to 40% in the same period of the prior fiscal year and 25% in the fourth quarter of fiscal 2021. This is clearly a big step in the right direction versus Q4. During the fiscal 2022 first quarter, we rectified a yield issue that contributed to the lower Q4 margins and something that we've been talking about for the past few quarters. This benefit was partially realized in the first quarter. So, we still expect to see a greater benefit in Q2 2022.

Also, prior year Q3 and Q4 had a number of new products going into volume production, which ordinarily would have lower margins until target production efficiency levels are reached. We are presently nearing peak efficiencies for those products at their now current level of production. Now we are also adding more which will go through the same cycle. So, we have a little of both in the future, excluding some major yield complications as we had last year that stems from coding and finishing inconsistencies, we should experience more consistent margin for the quarter.

However, the consolidated margin will vary with a mix of products shipped. Ultimately, as we generate more and more revenue from engineering solutions and new technologies, we will have already even a higher consolidated margins going forward.

Moving on to operating expenses, during the first quarter of fiscal 2022, total operating expenses were $3.6 million, an increase of 405,000 or 13% as compared to $3.2 million in the same period of the prior fiscal year. At this time a comparison to Q4 which had much higher expenses is inappropriate since the period incurred substantial onetime costs to support our situation in China. SG&A costs increased by approximately 18% as compared to the same period of the prior fiscal year.

The increase is primarily due to approximately 328,000 of additional one-time legal fees and consulting expenses associated with the events in China. As you recall, and as Sam just said, during the fourth quarter of fiscal 2021, the company terminated several employees with Chinese subsidiaries after determining that they had engaged in malfeasance and conduct adverse to the interests of the company. Companies' Chinese subsidiaries are involved in certain ongoing legal proceedings with the terminated employees who are somewhat precluded from any further discussions on that particular topic.

Slightly higher, SG&A also was incurred as a result of our additional headcount. And Sam mentioned some of the people that we've hired and the costs associated with operational improvement and to support our new strategic plan. Based on Sam's comments, it appears that our investments are going to deliver terrific returns. And we really needed to make those workforce additions as well as move forward to our capital investments to provide for additional production capacity and capabilities in the future.

Net loss for the first quarter of fiscal 2022 was 632,000 or $0.02 per share, compared to net income of 97,000, $0.00 per share for the first quarter of fiscal 2021. The decrease in net income for the first quarter of fiscal 2022 was primarily attributable to lower gross margin and increased SG&A expenses, including the one-time expenses. The resulting decrease in operating income was partially offset by a decrease in the provisions for income taxes, of approximately 305,000 as compared to the same period of the prior fiscal year.

For modeling purposes, we have remaining NOLs to cover our profits on a consolidated basis in the U.S. and pay only Chinese income tax. In Latvia, they levy a distribution tax on distributed earnings, but we reallocate the profits to future growth activities. So, we have not been accruing tax on earnings there. Cash was $4 million at the end of Q1 '22 down from $6.8 million at June 30, 2021.

Cash flow used in operations was $1.6 million in Q1 compared with cash provided by operations of $662,000 a year ago. The decrease in cash flows from operations in Q1 '22 is due to a decrease in net income, changes in working capital items and payment on liabilities and accruals. Cash invested was $1.2 million. Cash provided by financing activities was $51,000. And the effects of exchange rates on cash was a negative $32,000.

Therefore, the change in cash was negative $2.8 million from the end of the prior fiscal year to the end of the first quarter of fiscal 2022. Within that time frame, receivables increased by $1.3 million. Payables and accruals are reduced by $800,000. Inventories remain consistent at $8.7 million. Our backlog as of September 30, 2021, was $19.3 million down from $21.3 million at June 30, 2021, which primarily reflects the reduction of certain telecom business and a normal deliveries against annual contracts, including our largest that is up for renewal in about a month. This is partially offset by increases order for other product lines. As we've noted it is natural for our backlog to fluctuate during the year because of the timing of bookings of large orders and annual renewals.

Our single largest contract last year that is up for renewal would be valued at about 30% of our backlog at 930.21. With this review of our financial highlights and recent developments concluded, I will now turn the call over to the operator, so we begin the question and answer session.

QUESTION AND ANSWER

Operator
Ladies and gentlemen, at this time we'll begin the question and answer session. To ask a question, you may press "*" and then "1". If you are using a speakerphone, we do ask that you please pick up your handset before pressing the keys. To withdraw your question, you may press "*" then "2." Once again that is "*" and then "1" to ask a question. We will pause momentarily to assemble the roster.

The first question today comes from Brian Kinstlinger from Alliance Global Partners. Please go ahead with your question.

Brian Kinstlinger
Hey guys. It's great to see the improvement on revenue margins much faster on that recovery. In regards to the new freeform product, will there be any incremental expenses ahead of revenue and then I think you intimated this but are there going to be cases here where new products have early yield challenges until you get efficient and when will we see that where margin is a little bit…is that the back half of this fiscal year.

San Rubin
Yes, that's a good question. So free forms is going to be similar in mechanism of revenue and costs as a PMO, meaning most times...there isn't any standard freeform product. Every product is going be tailored for a customer's system or together with tailoring the entire system as we now do with some customers, which means that the NOE charge with it and those NOE charges are in the tens of thousands and sometimes for dollars for the initials ones for developing the molds for customizing it and then afterwards is production rounds.

Now, given the currently a place, most of the places where we are working on this are for customers that themselves are implementing new technologies such as Lidar and augmented reality glasses, we don't expect very high volumes from it yet because they need to get market traction with their own product. We do have a couple of customers that are using it for more or looking in to using freeform for more conventional products and there we will start seeing larger volumes sooner.

Brian Kinstlinger
Great. And then how do you think about the addressable market? That's the first question and then, is this on the same production line as existing lines, on a PMO or infrared side or is this incremental on production to your capacity.

Sam Rubin
Yes, that's great point. So, if you might know, part of the uniqueness of LightPath is that we have developed our own production equipment in molding and we have a few different versions of molding machines that we developed here and we built in-house. This allows us to make very slight modifications to existing molding machines to be able to use them for freeform optics.

So, capacity wise for the most part, this is going to use equipment that we have already for the PMO. The second half of the question?

Brian Kinstlinger
What's the addressable market and since you say it's the same…? if it is the same line, the same equipment a year ago, maybe two years ago, you had capacity issues, does this mean you need more capacity now.

Sam Rubin
So, we actually have capacities. It's not an issue at this point. So, a lot of that capacity was then being constrained by telecom and by the urgent need for lenses for contactless temperature measurement. Both of them are down significantly so the capacity is there. In terms of addressable market, I would look at it as, it's a component that as I mentioned performs a function of a few different components together. So typically, the unit prices is going to be higher than our regular PMO, meaning these are going to be probably in the $10 to $30…$40 a piece for those.

And then if you look at something like an application of a Lidar then every Lidar head is going to need one if a customer is using those freeforms. If you look at the AR glasses then typically the projection in an ideal scenario is for both eyes so there would be two angles.

What is the possible market of Lidar and ARs? That's beyond me at this point.

Brian Kinstlinger
Okay. Last one and then I will get back in the queue. I want to touch on margins. Again, you hit the 35 mark about a quarter earlier than I would have thought based on the need to turnover inventory before the margins improved so, there is something puts and takes mostly benefits of product launches becoming more efficient, the yield issues being a full quarter of benefit of…sorry the coating, so maybe talk about when you think you can hit that 40% range.

Obviously, it is dependent on mix but is that second quarter, is that third quarter? How should investors think about getting back to that high…..or water mark that you guys have been targeting.

Al Miranda
How are you doing Brian? It's Al. We do forecasts getting back to that 40% gross margin territory and you hit the nail on the head with your own question by saying it's about mix. So that's sort of the piece that from a forecasting perspective exactly precisely when it comes, 100% sure. We think it comes sooner rather than later, but from the cost perspective, that's the part that we feel more comfortable managing and if we get the right mix, we will get there certainly in this fiscal.

Brian Kinstlinger
Let me just make sure I understand and then I will see the line. What you are saying is from a yield and production standpoint, you can get to 40%. You are going to have some quarters you are going to be below based on mix. Some quarters you maybe at or above depending on new products coming out but everything is in place to get the 40% depending on mix now.

Al Miranda
I want to not answer you! The new products like freeform for example, Sam mentioned that the margins are better there and our modeling we're not baking a lot of revenue into our modeling there. So, in our models that's not really taken into consideration. So, we are talking about being somewhat conservative and looking at our current products, our current business and thinking how do we get to 40? What's the cost situation and what's the mix? But to sort of

support your answer without answering you is the yield issue was a big factor and it hasn't cycled through inventory so it will continue to improve.

Brian Kinstlinger
Okay. Thanks for all your answers.

Al Miranda
Thank you.

Operator
Our next question comes from Scott Buck from HC Wainwright. Please go ahead with your question.

Scott Buck
Hi, good afternoon guys. Thanks for taking my questions. First, I guess I have a question on the labor side. How are you guys doing there? Having any challenges in hiring or maintaining personnel in the current environment?

Sam Rubin
That's a good question. Thanks. There's some places where we are facing a bit more challenges in recruiting in the Orlando facility in the US. We do find that we need to reach out to other geographical areas in the US, relocate people probably…well, definitely more than we would always like to, but more than we would have probably needed to do two, three years ago. So that is a bit challenging and some of the positions are a bit more competitive than others. But overall, on the production side, we don't have any major issues. And it is really on finding the talented people on the management side at reasonable costs. In China and in Latvia, we don't have too many issues. In Latvia, we have a very detailed training programs since there isn't a massive tech, high tech industry in Latvia, it's a fairly small country. So, we invest a lot in training and over the years, our group has developed very good training programs. So overall, as long as we can plan for it, it's not an issue.

Scott Buck
Great. That's really helpful Sam. And then second one for me, I was hoping if we could get an update around M&A. I know in the last quarter's call, it was kind of in…a focus item, if you will, but just wanted to check in and see kind of where we are there.

Sam Rubin
Absolutely, we're definitely still very interested in that, that's going to be a good part of our growth, we believe. We have some good prospects. We wanted to focus also internally for a bit, the last quarter was a bit too much of a hit than what we wanted to in bottom line. And we felt like we needed to look inwards a bit and tie things up and improve. And I feel like we're actually right on track in terms of what we would have wanted to in terms of improvement. So, I'm hoping that we continue along this track. And we can go back to looking seriously at M&A. But we do want to make sure that we also deliver on our current operations and not just going bypass or something.

Scott Buck
Now, of course, it makes good sense. I appreciate the time guys. Thank you.

Sam Rubin
Thank you.

Operator
Once again, if you would like to ask a question, please press "*" and then "1." To remove yourself from the question queue, you may press "*" and "2." Once again, that is "*" and then "1" to join the question queue.

Our next question comes from Gene Inger from IngerLetter.com. Please go ahead with your question.

Gene Inger
Hi Sam and Al. And I think you…

Al Miranda
Hi Gene.

Gene Inger
…have done a pretty solid job. And you needed to after the previous quarter, as you just alluded to, in resetting expectations and I wonder whether the shareholders appreciate that enough, because I think, obviously, as far as the stock, it's been dormant and hovers around 2. And people are wondering when things will become accretive to shareholders. And I think what you're saying is that the ways up. But I have a specific question. As a result of the discussion, you just had about margins and yields, which might be whether we could have a surprise because you're talking about 40% margins on freeform. And while you discussed clientele maybe of $1 million to $10 million each order and that's being conservative, that doesn't sound like a lot of money until you look at the specialty product category, if I've got this right, which is almost nothing now. And you can imagine you would have anywhere from 30% to 100% increase in gross revenues of the business. Am I missing something?

Sam Rubin
Well, you know, I started by saying the 40% was an aggregate number we were talking about, the actual margin from freeforms, we would expect them to be more in lines of the PMO which is a strong margin. Now of course, some of our freeform customers might be listening, so we don't want to disclose the exact margin. But if you feel like it would be accretive and definitely help us. The Specialty Products Group and this is defined now is, it sort of, is the catch all for other parts. I don't know if that's a good indicator to what the growth and margins from PMO would be.

Gene Inger
But this…but such products would not take away from what we would call let's say the existing infrared business, they would constitute a new revenue segment.

Sam Rubin
Absolutely.

Gene Inger
That's right. Again, and speaking of the segments, last call, you acknowledged that it's not just [indiscernible] but low earth orbiting satellites, you're involved with. That's a form of telecom that's obviously not the telecom, that you said a customer reduced orders because their business was down. First of all, was that customer in China or the United States?

Sam Rubin
The satellite company that I mentioned but which customer….

Gene Inger
The satellite company is going to be the United States or Europe? I'm sure.

Sam Rubin
Yeah.

Gene Inger
That must be…no, no, you said the telecom orders were down from what…because one customer had lower billing.

Sam Rubin
Yeah, that was in China that has been for quite a few quarters.

Gene Inger
Well, [indiscernible] is down and China Telecom is down because a lot of people died. Seriously, they had a lot of people cancel accounts. That's one way people track their desktop. But anyway, my question might relate to the medical side of the coin. And there's a big movement to dramatically be disruptive with things like clinic on your wrists, and you know what I'm talking about it?

Sam Rubin
Yes, of course.

Gene Inger
Dr. Rick wanted…I don't mean to mention another company, everybody knows it, though. But Medtronic, Apple, they're all going in this direction and it involves infrared. And I wonder if you're…without compromising your relations with customers, can you give us a better idea if you're involved in such things?

Sam Rubin
Yeah, see, it is a very good question and a very good example of a place where there's a desire to miniaturize what otherwise could be much larger optical systems. And again, I go back to something like freeform optics where we can combine basically the function of a few elements into one or two. And we can make those balances the size of a millimeter of two in size. So do these kinds of industries are exactly ones that would benefit from high precision free form glass optics.

Gene Inger
And for those who are listening who don't know, I'm referring to Apple Watch 8, of course, which is supposed to, basically and so will Medtronic, what they're going to do is glucose monitoring sugar, which will probably every diabetic in the world was going to want that instead of being checking with needles. But in any event, no, that's, I think that's important. So, you guys are doing…I'm sorry, I interrupted you.

Sam Rubin
Oh, please go ahead. I think I appreciate the comments. They're very useful. And I'm sure other investors appreciate it too. Thanks, Gene.

Gene Inger
Do you know what you're working on is more, is infrared, not laser and I'm assuming there's no radiation involved in either that would be detrimental in the medical. In fact, the absence of radiation would make it advisable to go in that direction.

Sam Rubin
Yeah, we work…in the core of the business, the components, our historical business has been passive optical components. We have no project such as the one with this major satellite company, where we are designing and building a complete optical transmitter for transmission optically between satellites and that includes laser and receiver and this is a great example of where we are taking the company into much more of integrated solutions, designing the complete solution, utilizing our unique technology and know-how to design something better than what otherwise would be available.

Gene Inger
So has Musk booked you on a flight into space yet, Sam?

Sam Rubin
He has not, but if you have a word with him, I'm waiting for my Tesla and it's about the thick [indiscernible] space now so…

Gene Inger
And you do realize…

Sam Rubin
Thank you, Gene.

Operator
Our next question comes from Vishal Mishra from Mishra Capital. Please go ahead with your question.

Vishal Mishra
Oh, Hi Sam. Hi Albert.

Sam Rubin
Hi

Vishal Mishra
Do you think you can provide some sort of a broad classification of your revenues like what percentage and like the defense, medical, auto, telecom, consumer…is it already available somewhere in presentation…

Company Representative
Apology [indiscernible]

Company Representative
Non-US and US…

Sam Rubin
Well, I will stop by well I will explain that number I will mention in terms of US, non-US. In general, our sales are pretty much one-third, one-third, one-third meaning US, US is probably

stronger so probably closer to 40% and other parts divided between Asia and Europe, but when it comes to the actual sales, it could be different, the destination of shipment could be very different than the origin of the order. So, many of our customers from the high volume have manufacturing and assembly in Asia in different places, the relationship and the entire design work and everything is done here in the US.

Al Miranda
Analog is 20% defense is 6, industrial applications are 43, medical is 7, telecom is 7 and then commercial applications are 17.

Vishal Mishra
Okay. Thank you.

Al Miranda
Yes, no problem. When it comes to the 20% regarding catalog, and distribution, that could also be the other categories.

Vishal Mishra
Right.

Al Miranda
You don't always capture a specific margin.

Vishal Mishra
Got it. And second question related to that was like Sam you had mentioned that you liked to sort of transition from sort of the prior LightPath which was mid to low single-digits to like high double-digits, is it, will it come from like because you are in higher growth markets like Lidar and AR, VR etcetera or would it come from because you would transition from making components to sub assembly in solutions, how would that higher growth rate, what's the breakdown like….

Sam Rubin
Yes, great question. Yes, it seems like when we look and everything is based on value add, where can we add value and where can we bring some uniqueness to customers? We have very, very unique strengths when it comes to infrared optics, we make the materials ourselves, we have very unique capabilities in the fabrication and the coatings there. So, most times the easiest sort of powerful least resistance for us to get into making a complete sub-assembly or even a system tends to be more in the infrared area, because that's where our advantages are. It doesn't mean that we would say Lidar and AL, VL is just a visible that would absolutely not been the case, we even have actually one case like that where we are making a complete assembly or looking into that. But, the vast majority right now that we are seeing where most of the activity on the more engineered solution complex is in the infrared. And those oftentimes tend to be our space in defense.

Vishal Mishra
Right. So, like overall Photonics industry is for gas to grow it alike mid to high single-digits, but you would like to grow slightly faster, so that's what I am trying to say. Is it coming from because we are in a faster growing end market, or it will it come from because you doing more solutions and?

Sam Rubin
It will come a bit from eating other people's lunch. So, it is…in way converting our customers from buying one component from us, new components from us to buying a complete assembly that we designed.

Vishal Mishra
Okay, great. Thank you.

Operator
And our next question is a followup from Brian Kinstlinger. Please go ahead with your follow up.

Brian Kinstlinger
Hey, guys. I think we covered a lot of ground, but we really didn't cover the growth drivers for the two businesses in the near term? The results to me I would have expected the opposite based on your comments, last quarter, a sequential improvement in infrared and more flatness in PMO. So first of all, I am curious what drove other than lumpiness the changes quarter to quarter, but even a bigger picture and more important is I think about both those segments, which are those industries that are going to drive, at a defense but it's 7% of revenue, it's not that big. So, what are the industries and how do you go after them to drive better adoption and penetration?

Sam Rubin
Yes, so quickly on the part of the where growth comes from is, people might recall, we mentioned hopefully back in April I think, already, but definitely in the Q4 results that some of our hit to sales in China was because of the relationships with customers lost when we had to let's go of the senior management. Since they owned the relationships and they were funneling sales through these fake shell companies, there was a hit to us besides the telecom customer of the customers in China that we sort of lost touch with for a short-period of time. We anticipated that's coming back and we are seeing that coming back and a lot of that growth that we saw now and I am sure we will continue to see also is from the focus of regaining back the PLO customers that were sort of disconnected or lost for a while.

In terms of where the growth comes from in industries that's very. I say it's very diverse and in a way difficult to predict. You have situations like automotive thermal cameras that we are working on, it looks very promising. If it will be successful, it will be overnight, a multimillion dollar deal. It can also be not successful nothing to do with us, if the automotive company decides to postpone it because the lack of other components that they have and delivering costs. So, there are multiple industries where this can come from, defense, you are right, is only 7%, but defense is actually a place where we need to work on contracts for a long time before we win them and once we do it sort of a overnight big hit. So, we do expect defense to be quite a bit more in the future because we are winning designs there, we are winning contracts and we know it will come. Other than that, is really in places where new industries or new players want to adopt photonics and use it in their product and that is where we work with them closely sometimes for a couple of months, sometimes for half year or even a year and then it could be, it could turn on the switch and all of a sudden a 1 to 5 five million dollar order.

Brian Kinstlinger
Understood, so the degree there is component shortage for one of your customers, if possible we see slower demand at times but we do have new products, new successful products, those will creates spikes in revenue?

Sam Rubin
Yes, absolutely. I mean we've had situations where customers mentioned they might need to reschedule, because of component shortage. Thankfully that didn't actually happen. And we think it, we feel it is getting better at least with those customers that [indiscernible]. But, you are right, that's always a concern for us like any component manufacture.

Brian Kinstlinger
Great. Thank you so much.

Sam Rubin
Thank you.

Operator
Ladies and gentlemen, at this time we will be ending today's question and answer session. I would like to turn the floor back over to management for any closing remarks.

CONCLUSION

Sam Rubin
Thank you for participating in today's conference call. We look forward to speaking with you again at our upcoming annual meeting of shareholders and investor conference call next week. We hope you can join us. Thank you again and goodbye.

Operator
Ladies and gentlemen with that we will conclude today's conference. We do thank you for attending. You may now disconnect your lines.