

To Our Valued Shareholders,

Fiscal 2020 was truly a transformational year for our Company. Our record financial results validate that our strategic initiatives are working. Total revenue increased 129% over the prior year to \$150.8 million, as we successfully executed a major nationwide turnkey, design-build-install, LED lighting system and controls project as well as a variety of other business. We also made important progress advancing our business development efforts, adding other major national account opportunities to our pipeline.

Our significant revenue increase, combined with expense discipline, allowed us to achieve financial leverage as demonstrated by operating expenses of \$24.0 million, or 15.9% of revenue, versus \$20.7 million, or 31.5% of revenues in the prior year. Consequently, on a net income basis, we achieved our goal of moving the business to profitability with record net income of \$12.5 million or \$0.40 per share versus a net loss of (\$6.7) million or (\$0.23) per share in fiscal 2019, an improvement of \$19.2 million.

Importantly, we ended the year in a substantially stronger financial position, with cash and cash equivalents of \$28.8 million versus \$8.7 million at the end of fiscal 2019. We believe we are well positioned to weather the challenges we expect from government and business impacts from the COVID-19 pandemic. We enacted cost reduction measures near the end of our fiscal year to better position Orion for inevitable COVID-19 related disruptions. We intend to maintain our business focus and discipline as everyday life and the economy gradually return to a more normal environment.

Fiscal 2020 highlights:

- Revenue rose 129% to \$150.8M.
- Net income rose to \$12.5 million, a \$19.2 million improvement from prior year.
- Achieved positive EBITDA of \$14.7 million for the year.
- Executed \$111.8 million in turnkey LED retrofit business for a national customer; with a further expanded project currently expected to resume in the fourth quarter of our fiscal 2021 and throughout fiscal 2022.
- Made significant progress executing and developing additional major national account projects for new and existing customers.
- Continued our cost discipline, holding operating costs to an increase of just 16% on 129% revenue growth.

Having validated our capabilities to secure and execute major nationwide turnkey, design-build-install LED lighting system and controls retrofit projects, we are now focused on leveraging our integrated solution set to secure additional large national retrofit opportunities. In addition to focusing on this significant opportunity, our growth plan includes the continued development of our other sales channels, including Energy Service Companies (ESCOs) and our distribution channel. To support growth in these channels, we have developed several exciting new products that are designed to deliver superior capabilities at competitive price points.

Major National Accounts

As anticipated, our fiscal 2020 performance was largely driven by strength in our engineered systems segment, which increased by \$91.8 million to \$122.7 million and represented 81% of total revenue, as compared to 47% in fiscal 2019. We were able to win and execute this business because of the unique integrated set of capabilities we have built to execute fully one-stop, turnkey LED lighting system and controls projects with a single point of contact. Considering that LED lighting system penetration is less than 25% of the total industrial lighting market, the opportunity is still many billions of dollars, providing an ample runway for Orion's growth.

Specifically, our turnkey solutions include an in-depth, on-going dialogue regarding customer needs and objectives, individual lighting and energy audits at each customer site, custom engineering and product design to achieve specific goals, rapid order production via US-based manufacturing, on-time delivery, complete installation of lighting systems and controls, and overall project management. We believe this package of capabilities remains unique even amongst far larger competitors and therefore represents a compelling competitive advantage for Orion, particularly in serving large entities with nationwide needs.

We have built on the success of one major project with other large national accounts, including an ongoing project for new construction of distribution centers for a major global online retailer. We believe these successes are replicable both with new customers, as well as within our large base of Fortune 500 customers. We are currently seeing opportunities with large national retailers and grocery chains, as well as with regional distribution centers, logistics companies and public sector entities – including the U.S. military, the Veterans Administration and the U.S. Postal Service.

Market Channels

We also continue to believe in the long-term growth potential provided by our U.S. Markets segment with ESCO partners, as well as in our Orion Distribution Services segment, Orion's distribution channel.

The ESCO channel achieved solid growth in 2020 over the prior year, reflecting concerted efforts to improve our engagement in this channel. ESCOs are naturally orientated to deliver long-term energy savings for their customers. This orientation is well matched with Orion's leadership in energy efficiency and quality initiatives that substantially enhance the overall return on investment from LED lighting system upgrades. Reflecting these synergies, revenue from this channel grew to \$13 million in fiscal 2020, or \$2.4 million over fiscal 2019.

Our distribution channel had a challenging year, with a 38% revenue decline of \$9.1 million in fiscal 2020. We have implemented several new initiatives that we believe will directly address our challenges and put our distribution channel on a path of growth. In particular, we have recently launched our new Harris Star Line of LED high bay fixtures that deliver excellent energy efficiency at a very competitive price. We are helping to educate the channel on the customer benefits of these new fixtures, focusing them on our superior energy efficiency and lower long-term operating costs, which we believe will help sales in this price-competitive channel.

Services Opportunities

As we expand our expertise and capabilities to better serve our customers on a turnkey basis, our scope of services has grown substantially. Approximately 25% of our fiscal 2020 revenue was derived from services, principally related to installations completed within our turnkey retrofit programs. Given this growth and success, we now see the potential of services as a fourth path to market for our business going forward. This includes opportunities in the areas of lighting and electrical maintenance and other energy services, specifically targeted to large national customers, once again utilizing our turnkey, one point of contact approach. In the past year, we have made some headway providing electric and maintenance services in our national account channel, supporting our optimism for growth in this area.

Product Innovation

Product innovation is an important element of our corporate strategy, as it helps to ensure that Orion retains its leadership position in design, energy efficiency, features and value. As a result, we are continuously working to improve our product offerings and their performance, while also ensuring we remain in sync with bigger picture connected ceiling functionality and IoT capabilities.

One product line we are particularly enthusiastic about is Orion's LED retrofit fixtures that have been designed to combat bacteria, fungus, mold and mildew for high-traffic areas such as schools, healthcare, foodservice and fitness facilities, as well as in other high-risk public spaces. These fixtures combine Orion's Britex™ antimicrobial fixture coating with violet white light in the 400 to 430 nanometer wavelength. This product is available today, adding an additional layer of protection for facility safety. We are also beginning to work on incorporating ultraviolet light technology into some of our products. In addition, we are working with a partner to incorporate UV technology into an air movement product that could be incorporated into lighting and connected ceiling systems. Given rising customer focus on environmental dangers and health risks, we believe these solutions are poised to meet expanding market interest.

Internet of Things Opportunities

Also on the innovation front, we are positioning our company to benefit from the substantial growth we anticipate from the increased digitization of business, particularly from the growing array of Internet of Things (IoT) sensors, controls and capabilities we expect to be deployed in coming years. Orion's digital lighting solutions provide a connected ceiling system that is ideal for deploying IoT solutions in a fast and cost-effective way. Customers can secure even greater value from Orion LED lighting solutions by utilizing an IoT network to host capabilities such as asset tracking, material handling, facilities utilization, climate control and other types of monitoring.

To maintain our expertise and leadership in this area, Orion is investing in building industry-leading competence in IoT solutions and systems integration. We continue to follow a 'technology agnostic' strategy in the space, ensuring we are qualified to work with many of the leading IoT solutions. This posture allows customers to work with Orion no matter their choice of technologies across multiple locations, while also allowing us to make impartial introductions to possible solutions. We believe Orion's IoT experience and expertise will provide increased value while further differentiating our Company, as customers look to deploy IoT applications along with energy efficiency initiatives.

Financial Strength

Orion ended fiscal 2020 in a substantially stronger financial position, with \$28.8 million of cash and cash equivalents and \$10.1 million borrowed under our \$20 million revolving credit facility, compared to year-ago cash and cash equivalents of \$8.7 million and \$9.2 million of credit facility borrowings. We believe our enhanced financial position provides sufficient resources to navigate the COVID-19 pandemic and to execute our growth plans for the foreseeable future.

Outlook and Financial Goals

As of this writing, many customer projects have been delayed due to COVID-19 and government and business policies to control the spread of the virus. These factors and the evolving timelines for returning to more normal activity make it very difficult to provide reliable revenue and other financial goals for fiscal 2021. Customer dialogues suggest that more LED retrofit activity, including the completion of existing contracts, is currently likely to take place during the second half of our fiscal year. Consequently, we expect performance to be down significantly from the year ago period in the first and second quarter of fiscal 2021, with the likelihood of operating losses, but we remain optimistic for a return to profitability in the third and fourth quarter of our fiscal 2021. Based on what we know today, we believe our revenue will likely build on a sequential basis over the course of fiscal 2021 as customer activity progresses toward more normalized levels. Importantly, we believe Orion is well positioned for fiscal 2022 financial results to return to at least the levels achieved in fiscal 2020. Our actual performance could vary materially from this outlook, based on the timing of customer projects, as well as other industry and economic conditions, as the nation recovers from the repercussions of the pandemic. Longer term, we believe the outlook for Orion is very bright. This optimism is rooted in the quality and value that we deliver through our LED

retrofit projects and services and the growing strength of our competitive position as the go-to provider of large-scale, customized turnkey retrofit projects for large national accounts.

In closing, I'd like to thank the Orion team for their tremendous achievements over the past year, and for their continued hard work and dedication to our success as we move forward.

Thank you too, for your continuing support and confidence in the Orion team.

Sincerely,

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

Mike Altschaeff
CEO and Board Chair
Orion Energy Systems, Inc.
June 22, 2020

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