



News Release

IAI Publishes Financial Statements for H1 / Q2 2020, Recording the Highest Profits Ever At a Halfway Point Of Any Year Or Quarter

IAI's sales in H1 2020 crossed the USD 2 billion threshold – the highest H1 results in the company's history. IAI also experienced growth in operating and net income and in gross profit and EBITDA.

- **Sales:** an increase of 4.6% in sales volume to about USD 2,078 million in H1 2020, compared with about USD 1,986 million in H1 2019, **the highest sales ever recorded in any annual halfway point in company history**. A growth of about 7.6% in company sales in Q2 2020 to about USD 1,060 million compared with about USD 985 million in Q2 2019

Most notably, the sales of the Military Groups^(*) in H1 2020 increased to about USD 1,706 million compared with about USD 1,448 million in the corresponding period of last year. **A decrease of about 15% in the sales of the Aviation Group^(*) in H1 2020** to about USD 612 million compared with about USD 721 million in the corresponding period of last year

- **Net income:** increase of 64% in net income of about USD 82 million in H1 2020 compared with about USD 50 million in H1 2019, **the most profitable half-year in company history**. An increase of 33% in net income to about USD 48 million in Q2 2020 compared with about USD 36 million in Q2 2019, **the highest net income ever recorded in a second-quarter in Company history**

An increase of 28.7% in the net income of the Military Groups^(*) in H1 2020 to about USD 130 million compared with about USD 101 million in the corresponding period of last year. **The net loss sustained by the Aviation Group^(*) in H1 2020** amounted to about USD 8 million compared with a loss of about USD 7 million in the corresponding period of last year

- **EBITDA:** grew by 35% to about USD 223 million in H1 2020 compared with about USD 165 million in H1 2019. **EBITDA in Q2 2020** grew by 26%, totaling about USD 121 million (representing about 11.4% of sales), compared with about USD 96 million (representing about 9.7% of sales) in Q2 2019
- **Gross profit:** 25% growth in gross profit in H1 2020 to about USD 333 million (about 16% of sales) as opposed to about USD 267 million in H1 2019 (about 13% of sales). **A 12.4% growth in gross profit in Q2 2020** to about USD 163 million (about 15.4% of sales) as opposed to about USD 145 million in Q2 2019 (about 14.7% of sales)

An increase of 22% in the gross profit of the Military Groups^(*) in H1 2020 to about USD 292 million compared with about USD 239 million in the corresponding period of last year. **An increase of 12% in the gross profit of the Aviation Group^(*) in H1 2020** to about USD 46 million compared with about USD 41 million in the corresponding period of last year



- **Operating income: 87% growth in operating income** in H1 2020 to about USD 127 million (about 6.1% of sales) compared with operating income of about USD 68 million (about 3.4% of sales) in H1 2019. 38% growth in operating income in Q2 2020 to about USD 66 million (about 6.2% of sales) compared with operating income of about USD 48 million in Q2 2019 (about 4.9% of sales)

An increase of 39% in the operating income of the Military Groups^(*) in H1 2020 to about USD 157 million compared with about USD 113 million in the corresponding period of last year. **The operating income of the Aviation Group^(*) in H1 2020** decreased to about USD 4 million compared with about USD 8 million in the corresponding period of last year

- **The Company's order backlog approximates USD 13.2 billion**, representing about 3.4 years of operation. The Company's free cash flows total about USD 1.1 billion

Harel Locker, IAI's Chairman of the Board: "The excellent business results of the first half of the year, achieved despite the difficulties posed by the global coronavirus crisis, are the outcome of IAI's recent reinvented focus. As a company whose majority of products are exported, we faced various challenges in the supply chain from the beginning of the first half of the year and already in December 2019. Despite these challenges, owing to employee mobilization and careful executive management efforts, IAI was able to reach a historical record in financial results in the first half of 2020. We will continue to lead IAI towards full realization of its immense business and technological potential."

Nimrod Sheffer, President & CEO of IAI: "In this quarter IAI marks good results despite reduced activities in the Aviation Group. The increase in sales, the improvement in the business parameters of the Military Groups, and the continued provision of services to our customers around the world reflect the unwavering commitment of the company's employees and managers to its success. We are well aware of the serious ramifications of the global crisis on the Aviation Group and have prepared ourselves as an organization to the upcoming challenges in this industry. In the midst of the coronavirus pandemic, we were able to reach technological, business, and management feats: we have developed unique technologies for combatting the coronavirus, closed major deals such as the lease of the Heron UAVs to Greece, completed the manufacture of wings for the T-38 aircraft, signed a major contract for adapting business jets to intelligence missions, completed the conversion of passenger jets to cargo configuration for DHL, and achieved the accelerated development of the national communication satellite, the Dror-1. We have successfully completed an operational dual firing trial with the LORA Weapon System and a very successful launch of the Ofek-16 satellite. Moreover, IAI climbed from the eighth place to the second place in DBI's ranking of Israel's 100 employers of choice and recently learned of winning the Israel Defense Prize, in addition to a chain of awards won by the company over the years for its contributions to homeland defense. We also view the issue of sustainability as a major part of our long-term strategy and growth and in recognition thereof, we received a Platinum Plus rating by the Maala Index for corporate responsibility. IAI will continue to lead Israel's homeland defense industries towards more achievements and feats for the security and prosperity of the State of Israel."



Israel Aerospace Industries Ltd., Israel's largest national military and civilian security defense company, issues its consolidated financial statements for the first half and second quarter ended June 30, 2020.

Main results in H1 and Q2 2020

The Company's sales in H1 2020 amounted to about USD 2,078 million compared with about USD 1,986 million in H1 2019, an increase of 4.6%.

The sales of the Military Groups^(*) in H1 2020 increased by some 18% to about USD 1,706 million compared with about USD 1,448 million in the corresponding period of last year. **The sales of the Aviation Group^(*) in H1 2020** decreased by about 15% to about USD 612 million compared with about USD 721 million in the corresponding period of last year – a decrease of USD 109 million.

The Company's sales in Q2 2020 grew to about USD 1,060 million compared with about USD 985 million in Q2 2019, an increase of 7.6%.

The sales of the Military Groups^(*) in Q2 2020 increased by some 23.4% to about USD 890 million compared with about USD 721 million in the corresponding quarter of last year, an increase of USD 169 million. **The sales of the Aviation Group^(*) in Q2 2020** decreased by some 20.4% to about USD 289 million compared with about USD 363 million in the corresponding quarter of last year – a decrease of USD 74 million.

The increase in sales mainly arises from the increased sales of the Systems Missiles & Space Group and the ELTA Group, which were partly offset by a decrease in sales in the Aviation Group. The sales of the aircraft MRO subdivision dropped in H1 2020 by about 30% and in Q2 2020 by about 50% compared to the corresponding periods of last year.

Sales for export in H1 2020 accounted for 72% of sales totaling about USD 1,497 million (about USD 581 million, representing 28% of sales, to Israel), compared with 75% in H1 2019, totaling about USD 1,480 million (about USD 506 million, representing 25% of sales, to Israel). **Sales for export in Q2 2020** accounted for 73% of sales totaling about USD 773 million (about USD 287 million, representing 27% of sales, to Israel), compared with 76% in Q2 2019, totaling about USD 747 million (about USD 238 million, representing 24% of sales, to Israel).

Gross profit in H1 2020 amounted to about USD 333 million (about 16% of sales), compared with about USD 267 million in H1 2019 (about 13% of sales). **Gross profit in Q2 2020** amounted to about USD 163 million (about 15.4% of sales), compared with about USD 145 million in Q2 2019 (about 14.7% of sales). **The increase in gross profit stems from the increased sales of the Systems Missiles & Space Group and the ELTA Group.**

The gross profit of the Military Groups^(*) in H1 2020 increased by some 22% to about USD 292 million compared with about USD 239 million in the corresponding period of last year, an increase of USD 53 million. **The gross profit of the Aviation Group^(*) in H1 2020** increased by some 12% to about USD 46 million compared with about USD 41 million in the corresponding period of last year. **The gross profit of the Military Groups^(*) in Q2 2020** increased by some 24.4% to about USD 148 million compared with about USD 119 million in the corresponding quarter of last year, an increase of USD 29 million. **The gross profit of the Aviation Group^(*) in Q2 2020** decreased to about USD 24 million compared with about USD 25 million in the corresponding quarter of last year.

Operating income in H1 2020 amounted to about USD 127 million (about 6.1% of sales), compared with operating income of about USD 68 million in H1 2019 (about 3.4% of sales), an increase of USD 59 million. **Gross profit in Q2 2020** amounted to about USD 66 million (about 6.2% of sales), compared with operating income of about USD 48 million in Q2 2019 (about 4.9% of sales), an increase of USD 18 million.



The operating income of the Military Groups^(*) in H1 2020 increased by some 39% to about USD 157 million compared with about USD 113 million in the corresponding period of last year, an increase of USD 44 million. **The operating income of the Aviation Group^(*) in H1 2020** decreased to about USD 4 million compared with about USD 8 million in the corresponding period of last year. **The operating income of the Military Groups^(*) in Q2 2020** increased by some 50.9% to about USD 86 million compared with about USD 57 million in the corresponding quarter of last year, an increase of USD 29 million. **The operating income of the Aviation Group^(*) in Q2 2020** decreased to about USD 1 million compared with about USD 9 million in the corresponding quarter of last year.

Net income in H1 2020 increased by 64% to about USD 82 million (about 3.9% of sales), compared with net income of about USD 50 million (about 2.5% of sales) in H1 2019 - **an increase of USD 32 million**. **Net income in Q2 2020** amounted to about USD 48 million (about 4.5% of sales), compared with net income of about USD 36 million (about 3.7% of sales) in Q2 2019 - an increase of USD 12 million. **The net income recorded in this quarter is the highest in IAI history for a second quarter.**

The net income of the Military Groups^(*) in H1 2020 increased by some 28.7% to about USD 130 million compared with about USD 101 million in the corresponding period of last year, an increase of USD 29 million. **The net loss of the Aviation Group^(*) in H1 2020** amounted to about USD 8 million compared with a loss of about USD 7 million in the corresponding period of last year. **The net income of the Military Groups^(*) in Q2 2020** increased by some 65.3% to about USD 81 million compared with about USD 49 million in the corresponding quarter of last year. **The net loss of the Aviation Group^(*) in Q2 2020** amounted to about USD 6 million compared with net income of about USD 1 million in the corresponding quarter of last year.

EBITDA in H1 2020 amounted to about USD 223 million (about 10.7% of sales), compared with about USD 165 million (about 8.3% of sales) in H1 2019. **EBITDA in Q2 2020** amounted to about USD 121 million (about 11.4% of sales), compared with about USD 96 million (about 9.7% of sales) in Q2 2019.

In H1 2020, the Company recorded net financial expenses of about USD 13 million, compared with financial income of about USD 4 million in H1 2019. **In Q2 2020, the Company recorded net financial income** of about USD 1 million, compared with financial income of about USD 5 million in Q2 2019.

In-house research and development expenses in H1 2020 amounted to about USD 71 million, similarly to the corresponding period of 2019 (accounting for about 3.4% and about 3.6% of sales, respectively). **In-house research and development expenses in Q2 2020** amounted to about USD 32 million, compared with about USD 37 million in Q2 2019 (accounting for about 3% and about 3.8% of sales, respectively).

In H1 2020, the Company recorded **net tax expenses** of about USD 31 million compared with tax expenses of about USD 23 million in H1 2019. In Q2 2020, the Company recorded net tax expenses of about USD 20 million compared with tax expenses of about USD 17 million in Q2 2019. **The increase in tax expenses compared to the corresponding periods of last year mostly arises from the improvement in the Company's profits. The Company's income is subject to the ordinary corporate tax rate in Israel – 23%, and it is not entitled to any tax benefits pursuant to the Israeli Law for the Encouragement of Capital Investments, 1959 as it is a wholly-owned government company. The sale of any interests in the Company, even at a miniscule rate, to a non-government party will render the Company eligible for a reduced corporate income tax rate as per said Law.**

The order backlog in Q2 2020 amounted to about USD 13.2 billion, compared to about USD 13.4 billion at the end of 2019. 79% of the order backlog is held for sale to foreign customers that are widely



geographically dispersed, based on a large variety of projects and secures about 3.4 years of operation given the current sales volumes.

Negative cash flows from operating activities in H1 2020 amounted to about USD 63 million compared with negative cash flows from operating activities of about USD 18 million in H1 2019. **The negative cash flows from operating activities** in Q2 2020 amounted to about USD 68 million compared with positive cash flows from operating activities of about USD 73 million in Q2 2019.

Condensed balance sheet data (USD in millions)

	June 30, 2020		December 31, 2019	
	Amount	% of total balance sheet	Amount	% of total balance sheet
The Group's total assets	5,909	100%	5,815	100%
Current assets	4,485	76%	4,387	75%
Of which:				
Cash and current investments in financial assets	1,104	19%	1,161	20%
Contract assets, net	978	17%	870	15%
Current liabilities	4,485	76%	4,416	76%
Of which:				
Contract liabilities, net	2,295	39%	2,335	40%
Equity	1,010	17%	922	16%
Current ratio	1.00		0.99	
Quick ratio	0.81		0.81	



Condensed profit and loss data (USD in millions)

	Six months ended June 30,		Increase (decrease) compared to corresponding quarter of last year	Three months ended June 30,		Increase (decrease) compared to corresponding quarter of last year
	2020	2019		2020	2019	
Sales	2,078	1,986	4.6%	1,060	985	7.6%
Gross profit	333	267	24.7%	163	145	12.4%
% of gross profit from sales	16.0%	13.4%		15.4%	14.7%	
Research and development expenses	71	71	0.0%	32	37	(13.5%)
Costs of early retirement	5	2	150.0%	1	(1)	-
Operating income	127	68	86.8%	66	48	37.5%
% of operating income from sales	6.1%	3.4%		6.2%	4.9%	
Net income	82	50	64.0%	48	36	33.3%
% of net income from sales	3.9%	2.5%		4.5%	3.7%	
EBITDA (*)	223	165	35.2%	121	96	26.0%
% of EBITDA from sales	10.7%	8.3%		11.4%	9.7%	

(*) Operating income before financial expenses (income), net and tax expenses, with the addition of depreciation and amortization.