

Israel Aerospace Industries Marks Profitability and Growth for the 12th Consecutive Quarter

The most profitable period in company history – 17% growth in net income throughout the past three fiscal quarters

Increase in sales in Q3 to approx. USD 1,041 million and to approx. USD 3,205 million throughout the past three fiscal quarters.

Growth of 17% in operating income throughout the period and 44% in Q3 to approx. USD 52 million.

Growth in EBITDA of 24% in Q3 to approx. USD 109 million

Improvement in the commercial aviation division – significant increase in cargo conversions and MRO activity.

- **Net income:** 17% increase in the period of nine months which ended on September 30, 2021 ("the reporting period") to approx. USD 131 million compared with approx. USD 112 million in the corresponding period of 2020 – **the most profitable period in company history**. Net income increased to approx. USD 31 million in Q3 2021 compared with approx. USD 30 million in Q3 2020.
- **EBITDA:** 16% growth in the reporting period to approx. USD 361 million compared with approx. USD 311 million in the corresponding period of last year. **EBITDA in Q3 2021** grew by 24% to approx. USD 109 million (approx. 10.5% of sales) compared with approx. USD 88 million (approx. 8.7% of sales) in Q3 2020.
- **Operating income:** 17% growth in operating income in the reporting period to approx. USD 190 million (approx. 5.9% of sales) compared with operating income of approx. USD 163 million (approx. 5.3% of sales) in the corresponding period of last year. Operating income in Q3 2021 grew to approx. USD 52 million (approx. 5% of sales) compared with operating income of approx. USD 36 million (approx. 3.6% of sales) in Q3 2020.
- **Gross profit:** 7.5% increase in gross profit in the reporting period to approx. USD 500 million (approx. 15.6% of sales) compared with approx. USD 465 million (approx. 15.1% of sales) in the corresponding period of last year. **Increase of 13% in gross profit in Q3 2021** to approx. USD 149 million (approx. 14.3% of sales) compared with approx. USD 132 million (approx. 13.1% of sales) in Q3 2020.
- **Sales:** 3.9% increase in sales to approx. USD 3,205 million in the reporting period, compared with approx. USD 3,084 million in the corresponding period of 2020 – **the highest sales in the period ever recorded in company history**. The growth in sales mainly derives from the increased sales in the Systems Missiles & Space Group and the Military Aircraft Group, partly offset by reduced sales in the ELTA Group. Increase in sales in Q3 2021 to approx. USD 1,041 million compared with approx. USD 1,006 million in Q3 2020.
- **R&D expenses:** increase in inhouse R&D expenses in the reporting period to approx. USD 127 million compared with approx. USD 117 million in the corresponding period of 2020. Inhouse R&D expenses in Q3 2021 amounted to approx. USD 42 million compared with approx. USD 46 million in Q3 2020.



Boaz Levy, IAI's CEO and President:

"IAI presents another quarter of strong performance alongside record sales in the past three quarters, occurring despite the strengthening of the Israeli Shekel (NIS), which has a significant impact on a company with 80% of production in exports. This is the most profitable quarter in company history and we are recording a net income of USD 131 million, leading to a 17% growth in net income. The significant growth in income is thanks to the company's significant operations in Israel and abroad, together with commercial success and cooperation around the world. The company continues to focus its activities on all business lines in the backdrop of the recovery in the global aviation industry. The company is also taking steps to strengthen its corporate management by promoting executives both from within and outside the company, as the workforce recovers from the COVID-19 era. The company's performance over the first nine months of 2021 earned it a higher credit rating in the third quarter, and continues to contribute to enhancing its position in the capital market and readiness for an imminent IPO. Among the highlights of the third quarter, IAI was selected by Israel's Ministry of Defense to develop and manufacture the "Carmel" project for the Israel Defense Forces, which emphasizes IAI's strength in the land domain. In addition, IAI was selected to provide the Estonian Defense Forces with advanced anti-ship missile systems, and to provide radars to the German Bundeswehr. IAI also signed a cooperation agreement with SixAI to convert defense technology for the civilian market. Last week, for the first time, IAI participated in the Dubai Airshow 2021, held in the UAE. This was an historic event that illustrates IAI's capabilities and the vast potential in investing in the Gulf countries. During the exhibition, IAI signed a number of business collaboration agreements with leading commercial aviation and defense companies in the region."

Israel Aerospace Industries Ltd., a leader in the Israeli military and commercial homeland defense and aerospace markets, issues its consolidated financial statements for the nine months ended September 30, 2021 ("the reporting period") and for the third quarter of 2021 ("Q3 2021").

Main data for the reporting period and Q3 2021

The company's sales in the reporting period grew to approx. USD 3,205 million compared with approx. USD 3,084 million in the corresponding period of 2020, an increase of USD 121 million, representing approx. 3.9%. **The growth in sales mainly derives from the increased sales in the Systems Missiles & Space Group and the Military Aircraft Group**, partly offset by reduced sales in the ELTA Group.

The sales of the Military Groups^(*) in the reporting period increased by approx. 7% to approx. USD 2,745 million compared with approx. USD 2,571 million in the corresponding period of 2020, an increase of approx. USD 174 million. **The sales of the Aviation Group^(*) in the reporting period** decreased to approx. USD 872 million compared with approx. USD 877 million in the corresponding period of last year.

The company's sales in Q3 2021 grew and amounted to approx. USD 1,041 million compared with approx. USD 1,006 million in Q3 2020, **an increase of approx. USD 35 million. The increase in sales mainly derives from the increased sales in Military Aircraft Group and in the Aviation Group**, partly offset by the decrease in sales in the ELTA Group.

The sales of the Military Groups^(*) in Q3 2021 amounted to approx. USD 858 million compared with approx. USD 865 million in the corresponding quarter of last year. **The sales of the Aviation Group^(*) in Q3 2021 increased** by approx. 15.5% to approx. USD 306 million compared with approx. USD 265 million in the corresponding quarter of last year.

Sales for export in the reporting period accounted for 73% of sales, totaling approx. USD 2,352 million (approx. USD 853 million, representing 27% of sales, to Israel), compared with approx. USD 2,203 million (approx. USD 881 million, representing 29% of sales, to Israel) in the corresponding period of 2020.

Sales for export in Q3 2021 accounted for 76% of sales totaling approx. USD 790 million (approx. USD 251 million, representing 24% of sales, to Israel), compared with 70% in Q3 2020, totaling approx. USD 706 million (approx. USD 300 million, representing 30% of sales, to Israel).

(*) **The data of the divisions' sales, gross profit, operating income and net income (loss) consist of inter-divisionary activities and are identical to the data included in the note on business segments in the consolidated financial statements.**

Gross profit in the reporting period amounted to approx. USD 500 million (approx. 16% of sales), compared with approx. USD 465 million in the corresponding period of 2020 (approx. 15% of sales) – an increase of approx. USD 35 million mostly deriving from the increased sales in the Systems Missiles & Space Group and the Military Aircraft Group, and partly offset by the decrease in gross profit in the ELTA Group. **Gross profit in Q3 2021** amounted to approx. USD 149 million (approx. 14% of sales), compared with approx. USD 132 million in Q3 2020 (approx. 13% of sales) - an increase of approx. USD 17 million mostly deriving from the increased sales in the Aviation Group and in the Systems Missiles & Space Group, partly offset by the decrease in gross profit in the ELTA Group.

The gross profit of the Military Groups (*) in the reporting period increased to approx. USD 460 million compared with approx. USD 434 million in the corresponding period of last year. **The gross profit of the Aviation Group (*) in the reporting period** increased to approx. USD 44 million compared with approx. USD 42 million in the corresponding period of last year. **The gross profit of the Military Groups (*) in Q3 2021** increased to approx. USD 146 million compared with approx. USD 142 million in the corresponding quarter of last year. **The gross profit of the Aviation Group (*) in Q3 2021** increased to approx. USD 14 million compared with a gross loss of approx. USD 4 million in the corresponding quarter of last year.

Operating income in the reporting period amounted to approx. USD 190 million (approx. 5.9% of sales), compared with operating income of approx. USD 163 million in the corresponding period of 2020 (approx. 5.3% of sales). **Operating income in Q3 2021** amounted to approx. USD 52 million (approx. 5% of sales), compared with operating income of approx. USD 36 million in Q3 2020 (approx. 3.6% of sales).

The operating income of the Military Groups (*) in the reporting period was approx. USD 223 million compared with approx. USD 230 million in the corresponding period of last year. **The operating loss of the Aviation Group (*) in the reporting period** amounted to approx. USD 7 million compared with an operating loss of approx. USD 18 million in the corresponding period of last year. **The operating income of the Military Groups (*) in Q3 2021** amounted to approx. USD 65 million compared with approx. USD 73 million in the corresponding quarter of last year. **The operating income of the Aviation Group (*) in Q3 2021** amounted to approx. USD 1 million compared with an operating loss of approx. USD 22 million in the corresponding quarter of last year.

Net income in the reporting period increased by 17% to approx. USD 131 million (approx. 4.1% of sales), compared with net income of approx. USD 112 million (approx. 3.6% of sales) in the corresponding period of 2020 – **data reflecting the most profitable period in company history**. **Net income in Q3 2021** amounted to approx. USD 31 million (approx. 3% of sales), compared with net income of approx. USD 30 million (approx. 3% of sales) in Q3 2020.

The net income of the Military Groups (*) in the reporting period amounted to approx. USD 194 million compared with approx. USD 200 million in the corresponding period of last year. **The net loss of the Aviation Group (*) in the reporting period** amounted to approx. USD 18 million compared with a loss of approx. USD 36 million in the corresponding period of last year. **The net income of the Military Groups (*) in Q3 2021** amounted to approx. USD 56 million compared with approx. USD 70 million in the corresponding quarter of last year. **The net loss of the Aviation Group (*) in Q3 2021** amounted to approx. USD 4 million compared with a net loss of approx. USD 28 million in the corresponding quarter of last year.

EBITDA in the reporting period amounted to approx. USD 361 million (approx. 11.3% of sales), compared with approx. USD 311 million (approx. 10.1% of sales) in the corresponding period of 2020. **EBITDA in Q3 2021** amounted to approx. USD 109 million (approx. 10.5% of sales), compared with approx. USD 88 million (approx. 8.7% of sales) in Q3 2020.

In the reporting period, the company recorded net financial expenses of approx. USD 22 million, compared with financial expenses of approx. USD 14 million in the corresponding period of 2020. **In Q3 2021, the company recorded**



net financial expenses of approx. USD 6 million, compared with net financial expenses of approx. USD 1 million in Q3 2020.



Inhouse research and development expenses in the reporting period increased to approx. USD 127 million, compared with approx. USD 117 million in the corresponding period of 2020 (accounting for approx. 4% and approx. 3.8% of sales, respectively) – an increase of USD 10 million. **Inhouse research and development expenses in Q3 2021** amounted to approx. USD 42 million, compared with approx. USD 46 million in Q3 2020 (accounting for approx. 4% and approx. 4.6% of sales, respectively).

In the reporting period, the company recorded **net tax expenses** of approx. USD 39 million compared with tax expenses of approx. USD 38 million in the corresponding period of 2020. **In Q3 2021**, the company recorded net tax expenses of approx. USD 13 million compared with net tax expenses of approx. USD 7 million in Q3 2020. **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 ranging between 6% and 15% as per said Law.**

The order backlog as of September 30, 2021 amounted to approx. USD 12.1 billion, compared to approx. USD 12.6 billion at the end of 2020. 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 approx. 2.9 years of operation given the current sales volumes.

Negative cash flows from operating activities in the reporting period amounted to approx. USD 86 million compared with negative cash flows from operating activities of approx. USD 188 million in the corresponding period of 2020. **The negative cash flows from operating activities** in Q3 2021 amounted to approx. USD 159 million compared with negative cash flows from operating activities of approx. USD 125 million in Q3 2020.

^(*) The data of the divisions' sales, gross profit, operating income and net income (loss) consist of inter-divisionary activities and are identical to the data included in the note on business segments in the consolidated financial statements.



Condensed Balance Sheet Data (USD in millions):

	<u>September 30, 2021</u>		<u>December 31, 2020</u>	
	<u>Amount</u>	<u>% of total Balance Sheet</u>	<u>Amount</u>	<u>% of total Balance Sheet</u>
The Groups' total assets	5,997	100%	6,257	100%
Current assets	4,427	74%	4,756	76%
of which:				
cash and current investments in financial assets	795	13%	1,254	20%
contract assets, net	1,176	20%	945	15%
Current liabilities	4,422	74%	4,747	76%
of which:				
contract liabilities, net	2,202	37%	2,167	35%
Equity	1,181	20%	1,082	17%
Current ratio	1.00		1.00	
Quick ratio	0.82		0.82	

Condensed profit and loss data (USD in millions)

	Nine months ended September 30,		Increase (decrease) compared to corresponding quarter of last year	Three months ended September 30,		Increase (decrease) compared to corresponding quarter of last year
	2021	2020		2021	2020	
Sales	3,205	3,084	4%	1,041	1,006	3%
Gross profit	500	465	8%	149	132	13%
% of gross profit from sales	15.6%	15.1%		14.3%	13.1%	
Research and development expenses	127	117	9%	42	46	(9%)
Costs of early retirement	2	5	(60%)	0	0	-
Operating income	190	163	17%	52	36	44%
% of operating income from sales	5.9%	5.3%		5.0%	3.6%	
Net income	131	112	17%	31	30	3%
% of net income from sales	4.1%	3.6%		3.0%	3.0%	
EBITDA (*)	361	311	16%	109	88	24%
% of EBITDA from sales	11.3%	10.1%		10.5%	8.7%	

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



Israel Aerospace Industries (if needed):

IAI Ltd. is Israel's largest aerospace and defense company and a globally recognized technology and innovation leader, specializing in developing and manufacturing advanced, state-of-the-art systems for air, space, sea, land, cyber and homeland security. Since 1953, the company has provided advanced technology solutions to government and commercial customers worldwide including: satellites, missiles, weapon systems and munitions, unmanned and robotic systems, radars, C4ISR and more. IAI also designs and manufactures business jets and aerostructures, performs overhaul and maintenance on commercial aircraft and converts passenger aircraft to refueling and cargo configurations.

Pictured:

Boaz Levy, IAI President and CEO (Credit: IAI)

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