



# **Unitronics**

**Division Spinoff into Two Separate  
Companies**

**Presentation for Bond Holders  
October 7, 2018**

## Clarification

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This presentation includes forward-looking information, as defined in the Securities Law, 5728-1968, based on current estimates and assumptions as of the date of the presentation, among others, of the Company's management, which although the Company believes to be reasonable, are uncertain by nature and based in part on estimates. The forward-looking information included in this presentation includes, but is not limited to, the implementation of the structural change and the completion of the actions required for it, such as approval of capital reduction from the court, final decision of the board of directors of the company, And the expected results of the split in the Company and in the Company Sister, Iotron.

The Company's estimates above are based on information or assessments existing in the Company, as at the date of this report. The materialization or non-realization of the forward-looking information will be affected, inter alia, by risk factors that characterize the Company's operations, as well as developments in the economic environment and external factors that affect the Company's operations and which can not be estimated in advance and are not under the Company's control. The Company does not undertake to update or modify such forecast or assessment and does not undertake to update this presentation

It should be emphasized that as of the date of this report, there is no certainty as to the manner of execution of the split and its outcome, date and conditions, and there is also no certainty that the said split will be implemented, inter alia, due to the market situation

The Company hereby announces that on August 19, 2018 the Company Board of Directors decided in principle to perform a **Spinoff of the Company's business** (hereinafter: "the Spinoff"), through a **Spinoff Prospectus** and registration for trading at the Tel Aviv Stock Exchange Ltd. (hereinafter: "the Prospectus" and "TASE", respectively), such that the Company shall transfer its automatic solutions business (executed through the Company and through the subsidiary, Unitronics Automated Solutions Ltd.), in accordance with the instructions of a Spinoff agreement, which shall be signed between the Company and the U-Tron Ltd. Company, a fellow subsidiary of the Company, the stock of which is held by a trustee on behalf of the Company's stockholders.

The above Spinoff is subject to the legally mandated approvals, including approval of reduction of capital by the court, which is expected to be submitted to the court in the coming days, final decision by the Company Board of Directors and approval from the Tax Authority, permit from the Israel Securities Authority and TASE Ltd. approval for registration of the spun-off Company's securities for trading.

**The Company's Board of Directors believes that the Spinoff is a necessary strategic move due to the difference in nature of each of the activities.** Should all the conditions for the Spinoff mature and if the Spinoff will take place, this move **will enable the controller business** remaining in the Company executive focus on growth engines, expansion of the business in the target markets, **improved profitability, improved cash flow and improvement in all the financial indices, inter alia through positioning the enterprise as a profitable company over time with possibility of dividend distribution.**

The Company's Board of Directors furthermore believes that the **automated solutions business**, which will be spun off the Company and transferred to the fellow subsidiary, will **facilitate stabilization** and Management business focus, focus on the American market and positioning as market leaders, will open up the **possibility of capital raising to accelerate growth** insofar as this will be necessary, to achieve strategic collaborations, and to position it in the capital market as a leading, groundbreaking growth technology company."

The above includes forward-looking information, as per its definition in the Securities Law, 5728-1968. Forward-looking information is uncertain information regarding the future, including projection, assessment, estimation or other information related to a future event or matter, the realization of which is not guaranteed and/or is beyond the Company's control. The forward-looking information included above includes, inter alia, the effecting of the restructuring and completion of the necessary measures for it, such as approval of a reduction of capital by the court, final decision by the Company Board of Directors and obtaining approval from the Tax Authority, permit from the Israel Securities Authority and TASE Ltd. approval for the Spinoff in the Company and in the fellow subsidiary, U-Tron. The above Company estimates are based on information or estimates available at the Company at the time of this report. It is hereby emphasized that as of this reporting date there is no certainty as to the method of the Spinoff and its outcomes, its timing, terms, and there is no certainty at all that the Spinoff will take place, inter alia due to the state of the market, obtaining the above required permissions, etc.

## These are two lines of business which differ substantially in their modus operandi

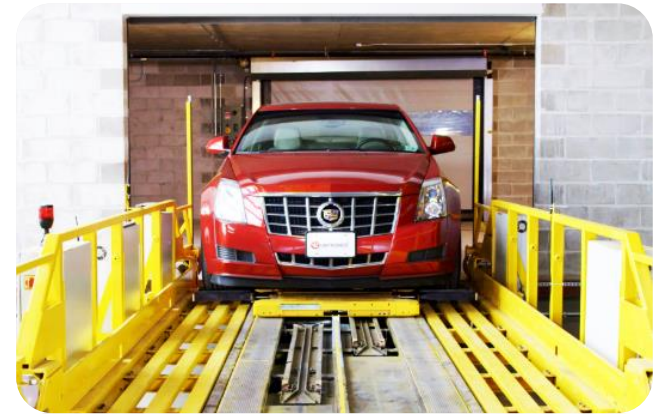
### The Controller business:

- Development, manufacture and marketing of **products**
- A mature product – stable, field proven and reputable
- Manufacture of tens of thousands of products and electronic components per year
- Worldwide sales through distributors
- Stable, existing distribution channels with a global reach
- A business with good profitability over time; positive cash flow



### The Automated Parking and Warehouses business:

- Development, manufacture and marketing of **a solution/project**
- An innovative product in its final development and stabilization stages
- Requires educating the market and penetration of the U-Tron brand
- Setting up operational infrastructure for executing the new projects



### Division Spinoff into Two Separate Companies will make it easier to:

- Simplify the Company's overall structure
- Focus each business on its specific goals
- Capital raising **for U-Tron** to support its growth





# Advantages of the Spinoff – Controller Business

- Management focus on growth engines and expansion of the business within the target markets
- Improved profitability and cash flow
- Improvement in all the financial indices
- Positioning within the Capital Market –
  - Positioning of the enterprise as a profitable company over time
  - Possibility for dividend distribution



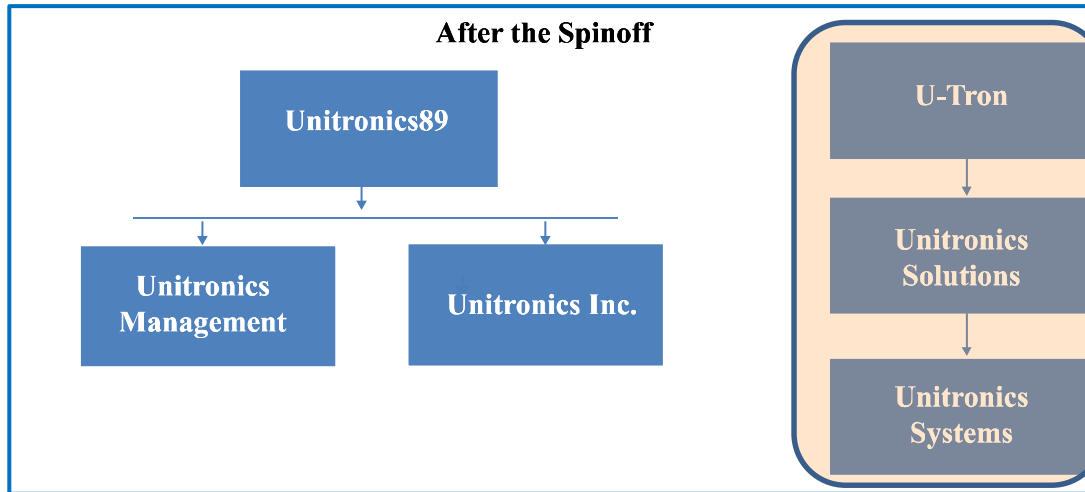
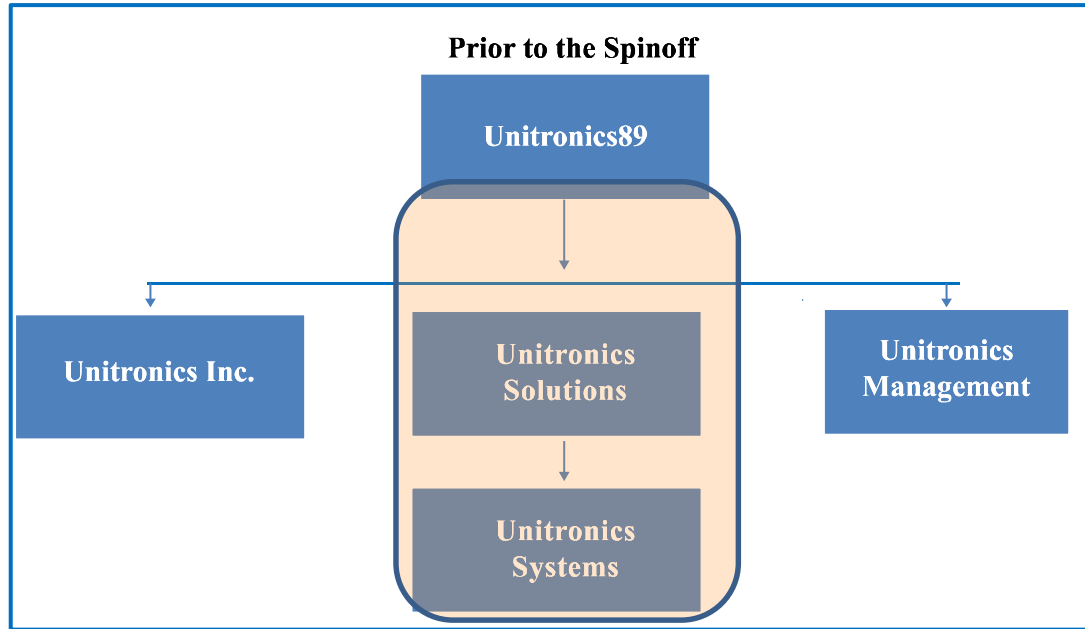
## Advantages of the Spinoff – Parking and Warehouses Business

- Rounding out and stabilization of the corporate management
- Focus on the American market and positioning as market leader
- Capital raising for growth acceleration (if necessary)
- Positioning within the Capital Market –
  - Positioning of the enterprise as a growth technology company



# Advantages of the Spinoff – Restructuring

Parking and  
Warehouses  
Business





# ***UNITRONICS (1989) (R" G) LTD***

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**Presentation for Bond Holders Following Application for  
Reduction of Capital – Financial Analysis**

*October 2018*

# Foreword

- The said presentation is not an investment offer and/or an offer for a purchase of securities of Unitronics (1989) (R"G) Ltd ("the Company") and in particular it is not a "public offering" or a "public sale" of any kind. This presentation does not purport to cover or contain all of the information which may prove to be relevant to making any decision regarding investment in the Company's securities, concerning the application for division through the spinoff, which has been filed in court by the Company (on September 6, 2018, reference No. 2018-01-083341) ("the "Application") etc.
- The presentation has been laid out, for the sake of convenient, concise presentation, and it does not include all of the data which have formed the basis for the confidential financial opinion, which was appended to the Application.
- This presentation contains forward-looking information as per its definition in the Securities Law, 5728-1968, which is based on estimates and assumptions made by, inter alia, the Company management and its financial advisors, which, although they are convinced they are reasonable, are by their very nature uncertain and are based, in part, on subjective estimates only. The estimates and assumptions are updated to the date of the presentation. The forward-looking information included in this presentation includes, inter alia (but not only), financial data (pro-forma) of the Company post-Spinoff, the financial ratios of the Company after the Spinoff, the impact of the Spinoff on the Company's financial data, the Company's projected cash flow post-Spinoff, etc. The above estimates of the Company and its financial advisors are based on information or estimates available at the Company at the time of this report. The realization of the forward-looking information, or the failure thereof to realize, shall be influenced, inter alia, by risk factors typical to the Company business, and by the developments in the financial landscape and by external factors affecting the Company's business, and which it is impossible to assess in advance, and which are beyond the Company's control. The Company and its financial advisors do not commit to update or amend projections or estimates as above and they make no commitment to update this presentation.
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# Background

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# Background

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## Background – The Spinoff

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- Unitronics plans to spin off the automation business and to remain only with the profitable controllers business.
- The automation business, which will be spun off, is a loss-making business with a negative cash flow, whereas the remaining controller business is profitable with a positive cash flow
- The Spinoff involves a reduction of capital in Unitronics totaling NIS 47 million
- Prometheus has evaluated the Spinoff move and has concluded that there is no real likelihood that the reduction of capital will prevent the Company from meeting its existing and expected obligations at the time of their repayment. Our professional opinion has been submitted to the court as part of the application for approval of the division through spinoff, which was filed by Unitronics (immediate report of filing the application to the court dated September 6, 2018 – 2018-01-083341)

## Purpose of this Presentation

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# Purpose of the Presentation

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## The Spinoff from the Bond Holders' Standpoint

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- Unitronics has two series of bonds:
  - Series 4: Final payment due January 2019
  - Series 5: Final payment due August 2023
- **In this presentation we were requested to examine the Spinoff from the Bond Holders' Standpoint (4 and 5)**

## Qualitative Considerations

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# Qualitative Considerations

## Historical Results

### Historical Results on the Spun-Off Business:

- The business to be spun off recorded a pro-forma loss of about NIS 6.6 million, about NIS 29.5 million and about NIS 12.5 million in 2015, 2016 and 2017 respectively.
- In the first half of 2018, the business to be spun off recorded a loss of about NIS 2.2 million.
- In total, since it came into existence and until the date of the reduction of capital opinion paper, the business to be spun off recorded a loss of about NIS 98 million, and the company anticipates it will record losses of another about NIS 10 million before it breaks even.
- According to the Company, when the business to be spun off got underway, the expectation was of considerably lower losses

**At the cash flow level, the Spinoff is beneficial to the bond holders,  
at least in the short term**

# Qualitative Considerations

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## Risk Profile

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### The Unitronics risk profile:

- Unitronics today is comprised of two lines of business:
  - The controller business, which is well-established, profitable and has a positive cash flow
  - On the other hand the automation business (which is earmarked to be spun off) is more entrepreneurial and risky by nature and is more reminiscent of a start-up.
- The Unitronics bond holders are currently exposed to the aggregate risk from both lines of business
- By spinning off the automation sector, the Unitronics risk profile will be lowered

**Spinning off the automation sector will benefit the bond holders by lowering the Unitronics risk profile**

# Qualitative Considerations

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## Impact on Unitronics

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### Impact of the Spinoff on Unitronics

- The impact of the Spinoff on financial soundness of Unitronics was evaluated as part of an expert opinion which was submitted to the court
- The conclusion of the expert opinion was that Unitronics would be able to meet its existing and anticipated liabilities even given the Spinoff
- The main liability which was evaluated was the debt to the bond holders, and the finding was that even in an extreme scenario the Company will be able to service its debts

**Even in an extreme scenario, the Spinoff will not prevent the Company from servicing its debts, including its debt to the bond holders**



## Quantitative Considerations

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# Quantitative Considerations

## Impact of the Spinoff on Unitronics' Capital (Reduction of Capital)

### Spinoff Components

- From an accounting standpoint, the Spinoff is expected to cause a reduction of NIS 46.9 million in the Company's owner's capital.
- The reduction of capital is mostly a cancellation of inter-company balances, rather than cash transfers to the new company

NIS millions	As of June 30, 2018
Positive working capital (liabilities) assets which will be transferred to U-Tron	(1.7)
Cancellation of inter-company balances	48.6
<b>Total</b>	<b>46.9</b>

**The reduction of capital is not a cash-flow reduction**

# Quantitative Considerations

## Impact of the Spinoff on the Financial Ratios

### Unitronics (Single Entity) Proforma Balance Sheet Post-Spinoff

NIS in Thousands	Balance sheet as of 30.6.3018
Current assets	75.8
Non-Current assets	59.9
Total assets	<u>135.7</u>
Current Liabilities	39.5
Non-Current Liabilities	54.3
Owner's capital	41.9
Total Liabilities + Capital	<u>135.7</u>

### Unitronics (Single Entity) P&L Reports (Proforma) Post-Spinoff

For 2015, 2016 and 2017 and for half the year ending on June 30, 2018:

NIS millions	2015	2016	2017	1.1.18 – 30.6.18
Total Revenues	99.6	102.2	110.6	59.0
EBITDA	24.3	24.1	25.7	14.7

Based on this balance sheet, the Company's financial ratios were calculated post-spinoff (see next slide)

# Quantitative Considerations

## Impact of the Spinoff on the Financial Ratios

### Financial ratios as of June 30, 2018 post-spinoff:

- Net financial debt per balance sheet: 29.6% – **Good**
- Net owner's capital per balance sheet: 30.9% – **Good**
- Net financial debt to EBITDA: 1.5 – **Excellent**
- Current ratio: 1.9 – **Excellent**

### Unitronics Single Entity Financial Ratios – 2015-2017 and First Half of 2018:

- Stable EBITDA rate of **23-24% of revenues**

**The Company's financial ratios after reduction of capital indicate financial soundness and excellent solvency**

# Quantitative Considerations

## Impact of the Spinoff on the Historic Profit

### Following are data from the Company's historical reports

- The following table presents the Company's actual results between 2015 and the end of the first half of 2018.
- The top row shows the actual operating profit
- The bottom row shows the proforma operating profit assuming the Spinoff was done on January 1, 2015

NIS in Thousands	2015	2016	2017	1.1.18 – 30.6.18
Unitronics actual operating profit	13,335	(11,780)	8,880	6,141
Unitronics proforma <b>operating</b> profit (without the spinoff)	16,140	14,489	15,933	8,920

**The table indicates that the spun-off business imposed a burden on Unitronics' cash flow.**

**This is expected to continue at least in the short term.**



# Quantitative Considerations

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## Impact of the Spinoff on Future Cash Flow

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### **Following is the impact of the Spinoff on the cash flow – in an extreme scenario**

Working assumptions:

- Revenues – despite steady growth in recent years, a per-annum decline of about 5% was assumed from 2019
- Cost of sale and operating costs – for the scenario, the highest rate in the past 3 years has been assumed
- Capital investments – despite the negative growth, it has been assumed that the investments will not be reduced
- Intercompany revenues – no profits have been assumed in the subsidiaries
- Period – till 2024 (one year after the end of bond payoff)

The results of this scenario are presented in the next slide

# Quantitative Considerations

## Impact of the Spinoff on Future Cash Flow

### Projected cash flow – Extreme negative scenario

NIS in Thousands	1.7.18 – 31.12.18	2019	2020	2021	2022	2023	2024
Cash I.P.	14.4	17.1	16.7	16.3	20.8	25.1	29.2
Cash I.S.	17.1	16.7	16.3	20.8	25.1	29.2	41.2

### Compliance with Bond Financial Criteria

- Ratio of financial debt to EBITDA not exceeding x10 – consistently compliant with a substantial positive difference even under extreme scenario
- Owner's capital shall not be less than NIS 25 million – consistently compliant with a substantial positive difference even under extreme scenario
- Ratio of financial debt to net CAP lower than 70% – consistently compliant with a substantial positive difference even under extreme scenario

**Evaluation conclusion: Even in an extreme scenario, taking into consideration bond principle and interest payments, the Company remains with a minimum cash cushion greater than NIS 14.4 million each year**

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