

# TADIRAN

## Company presentation

September 2020



**TADIRAN**



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Without detracting from the generality of the above, the information contained in the presentation, inter alia, regarding the Company's working principles, expansion of energy activity, growth potential and revenue distribution in the coming years, is forward-looking information based and derived, inter alia, on the Company's goals.

The Company's assessments regarding the Company's objectives are based, inter alia, on the Company's assessments regarding trends in the Company's business in particular and trends in the market in which the Company operates in general, as well as the Company's management assessments regarding potential and market trends in Israel and international markets as of this report. These assessments may not materialize and / or materialize significantly differently from the Company's assessments, inter alia, as a result of factors external to the Company and which are not under control, including, inter alia, changes in the economic situation in Israel in general Different from those that the Company's management estimates as of the date of this report, the non-realization of the potential penetration into international markets in general, and in particular those listed above, regulatory changes and the realization of some of the risk factors described in the Company reports, continued potential effects. These assessments may not materialize and / or materialize significantly differently from the Company's assessments, inter alia, as a result of factors external to the Company and which are not under control, including, inter alia, changes in the economic situation in Israel in general and in the market in which the Company operates in particular, development of new and / or different trends from those that the Company's management estimates as of the date of this report, failure to penetrate international markets in general, and in particular those listed above, regulatory changes and the realization of risk factors described in the Company's reports, the continuation of potential effects of the corona crisis and so on.

To the extent that there is a conflict between what is stated in this presentation and what is stated in the Company's reports required by law, what is stated in the Company's reports will prevail.

## Our vision

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"Impact health and life quality through  
air care and improved living space,  
introducing innovative and environment  
friendly solutions"

# Contents

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- **Company Summary**
- Financial data
- Strategic plan 2020-2025



**TADIRAN**

With a strong  
brand, Tadiran is  
leading the  
industry

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Tadiran is the leading air conditioning company in Israel  
Seen continuous growth in market share in recent years, achieving approx. 40% of total market share in 2019  
Industry leader for service and main distribution channels



Strong financial results  
19% increase in revenues in the last five years, with strong net profit and strong cash flow  
Average six-year dividend yield of 4.0%  
Achieved an upward trend in debt rating to A1 Stable, rated by Midroog (Moody's subsidiary)



An Israeli super brand on an international scale  
60 years of activity in Israel  
Featured on Superbrands 3 years in a row  
A well-known brand in the world with an emphasis on Europe



# Tadiran – 60 years of activity in israel and globally



Establishment of Tadiran



Opened manufacturing facility in Afula, Northern Israel



Carrier purchases Tadiran and starts export activities



Mr. Moshe Mamrud becomes largest shareholder via acquisition from Carrier



Tadiran becomes part of Tel Aviv-125 Index

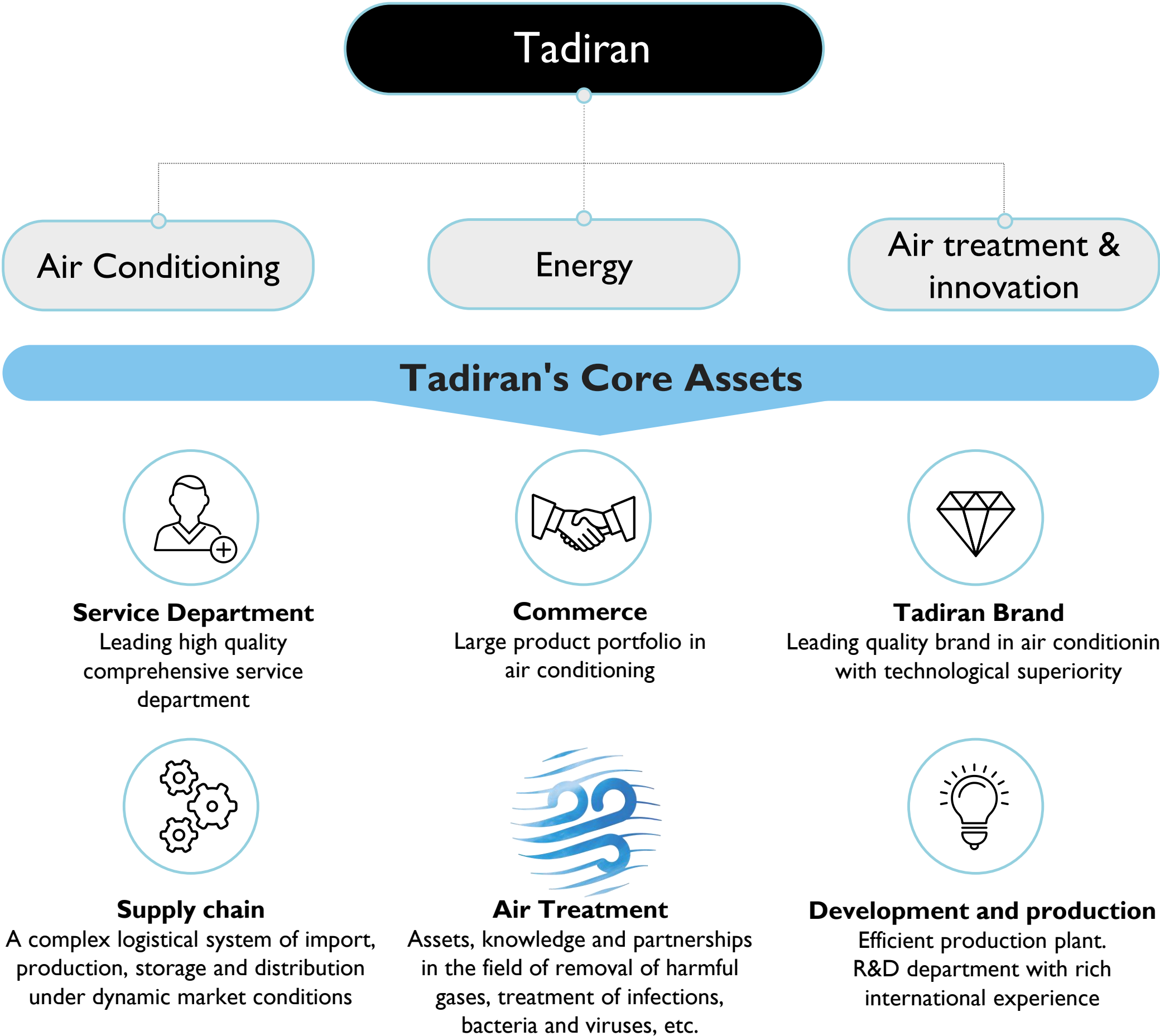


Launched marketing campaign with Hollywood actor Morgan Freeman



Publicly launched global growth strategy

# Tadiran's core competences



# Air conditioning market in israel

Total market volume is approx. NIS 2.9 billion

Residential air conditioners



Market size  
(NIS in millions)  
2,200

VRF



Market size  
(NIS in millions)  
245

AHUs, blowers packages



Market size  
(NIS in millions)  
240

Chillers



Market size  
(NIS in millions)  
180



# Residential air conditioning market in israel

Market size of approx. NIS 2.2 billion.

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Penetration rate of approx. 95% - among the highest in the world.

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High barriers to entry: strong brand, business relationships with a leading supplier, compliance with stringent energy regulations, production development capabilities and logistics.

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The market is based on approx. 70% replacement and 15% additions, a figure that indicates stability in demand over time. The remaining 15% is from construction starts.

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About 70% of sales are made through professional channels (installers, wholesalers, projects and institutions), the rest from retail stores.

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The market has shown a consistent growth trend supported by improved living standards and global warming.

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Inverter technology accounts for only about 13.4% of the market in units sold, but about 18.6% in financial terms. We expect this to be a growth engine for years to come.

# Commercial air conditioning market in Israel

The market size in Israel is approx. NIS 700 million a year and is growing at an annual rate of about 2-3%.

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The market is affected, among other things, by developments in the infrastructure industry.

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VRF - market size is approx. NIS 245 million with 3% annual growth. Primarily populated by Korean, Chinese and Japanese brands.

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Chillers - market size is approx. NIS 180 million with 2% annual growth. Relatively few players in the market.

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AHUs - market size is approx. NIS 150 million with 4% annual growth. The market consists of 3 segments: commercial-lightweight, commercial-heavy and industrial-heavy AHUs.

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Packages - market size is approx. NIS 50 million with 4% annual growth.

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Blowers - market size is approx. NIS 40 million with 7% annual growth.

# Energy efficiency

As part of the ESCO project, energy consumption systems (lighting and thermal) in the hospital are replaced with more efficient systems. The company receives consideration of 80% of the savings until the end of 2033.

As part of the project, energy efficiency solutions are expected to be installed in 9 hospitals throughout Israel.

Total expected expenses are estimated at NIS 102 million (approximately NIS 21 million in respect of installation costs and approximately NIS 81 million in respect of maintenance and other expenses).

As of Tadiran's annual report for 2019:

- Lighting: Installation was completed in 6 hospitals, and 2 additional hospitals will be completed soon.
- Thermal: Installation was completed in 3 hospitals and 2 additional hospitals will be completed soon.

The ESCO project has been generating profits since 2018 and expects to yield positive cash flow starting in 2020.

The information presented above, including the schedules for carrying out the project, the total expected expenses in connection with the project and the date of their implementation, the scope of the participating hospitals, etc., is considered as Forward-Looking Information, as defined in the Securities Law, based on the company's subjective assessment and familiarity with the project. The realization and / or non-realization of the Forward-Looking Information will be affected by factors that cannot be estimated in advance and are not under the Company's control, including, inter alia, changes in schedules, scope of investments and costs in connection with the project, and issues related to policy and / or actual Ministry of Health and Hospitals.



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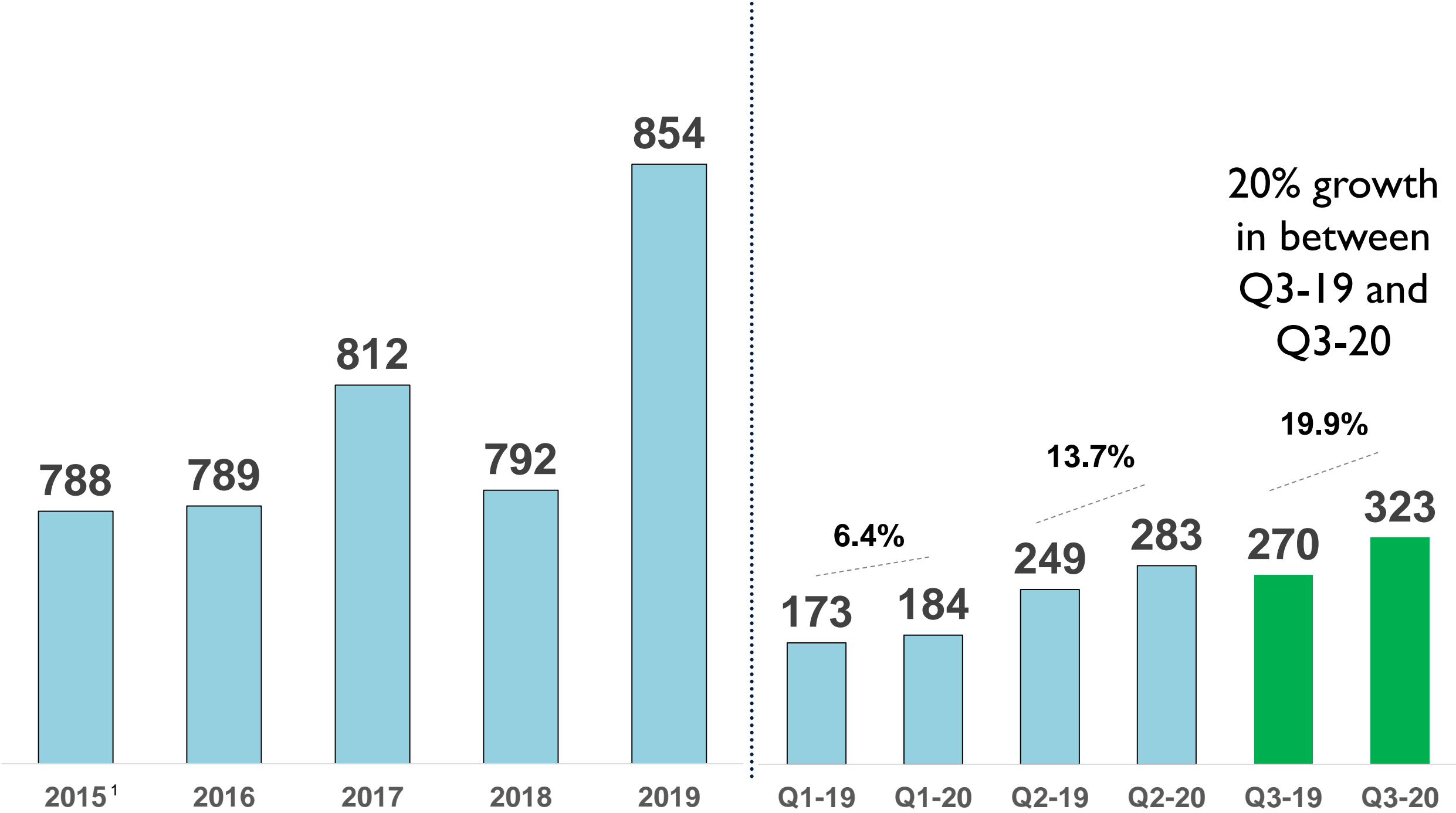
- Company Summary
- Financial data
- Strategic plan 2020-2025



**TADIRAN**



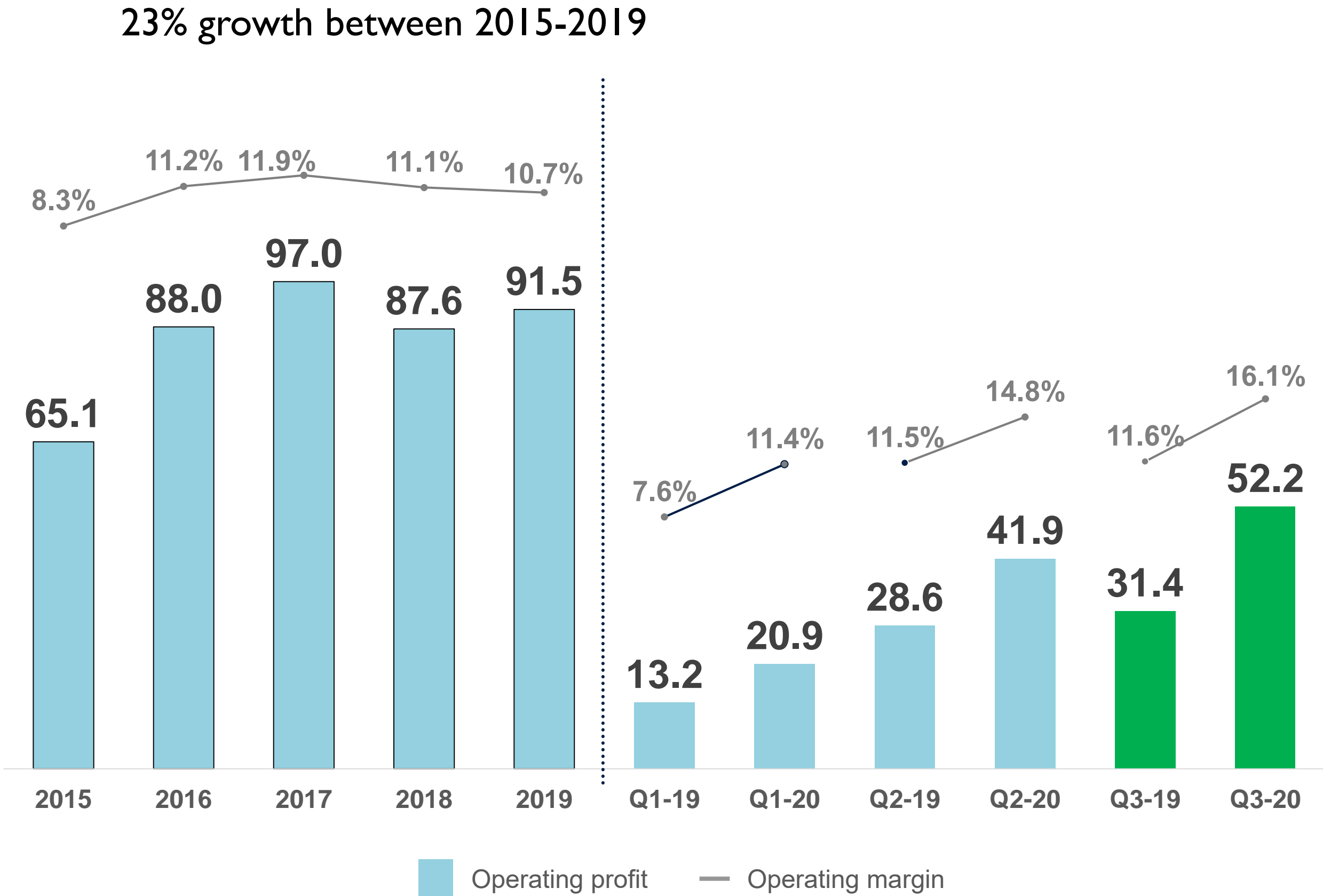
# Revenues (NIS in millions)



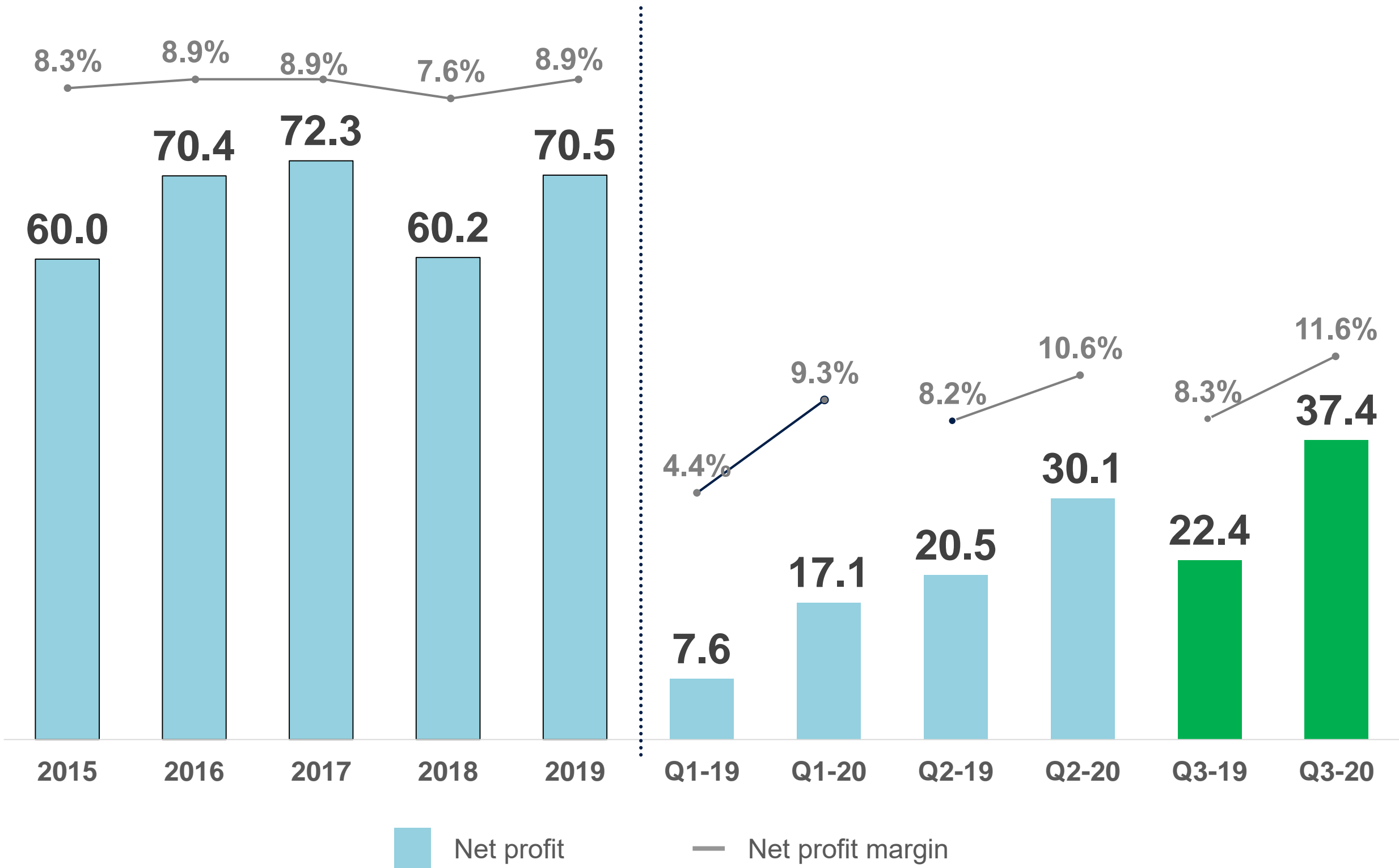
<sup>1</sup> Includes NIS 69 from discontinued operations that were subsequently classified as continuing operations.



# Operating profit (NIS in millions)

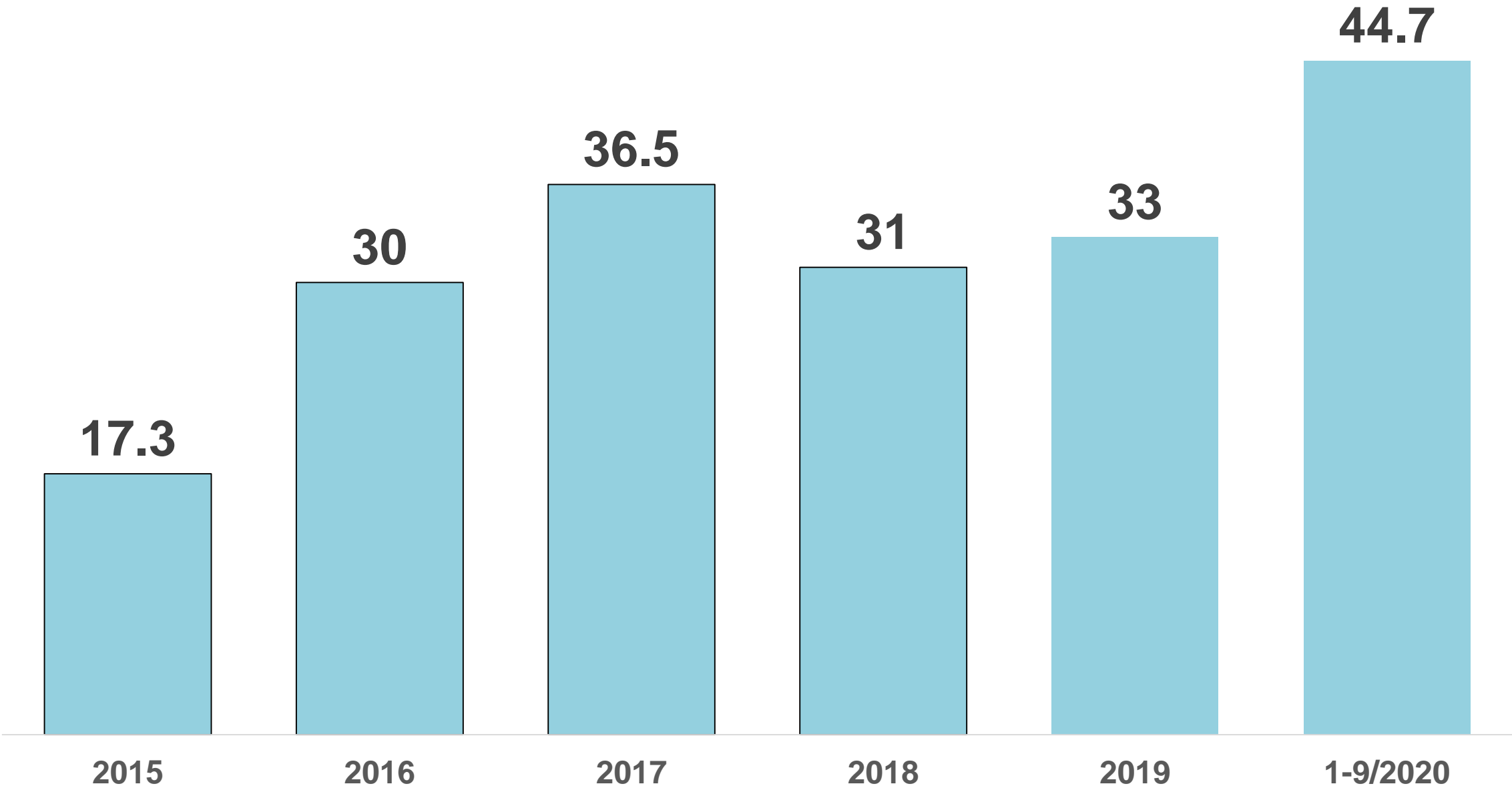


# Net profit (NIS in millions)



# Dividend distribution (NIS in millions)

Since 2015, Tadiran has distributed **NIS 192.5 million** of dividends.



# Summary balance sheet

(NIS in millions)

	31.12.2018	%	31.12.2019	%	30.09.2020	%
<b>Cash and cash equivalents</b>	42.4	7.6%	90.5	14.8%	296.7	35.2%
<b>Other current assets</b>	406.1	72.7%	380.7	62.3%	408.6	48.3%
<b>Non-current assets</b>	110.1	19.7%	139.4	22.9%	138.9	16.5%
<b>Total assets</b>	<b>558.7</b>	<b>100.0%</b>	<b>610.7</b>	<b>100.0%</b>	<b>844.3</b>	<b>100.0%</b>
<b>Current liabilities</b>	181.9	32.6%	195.4	32.0%	304.3	36.0%
<b>Non-current liabilities</b>	72.4	13.0%	73.3	12.0%	157.1	18.6%
<b>Equity</b>	304.3	54.5%	342.1	56.0%	382.8	45.4%
<b>Total liabilities and equity</b>	<b>558.7</b>	<b>100.0%</b>	<b>610.7</b>	<b>100.0%</b>	<b>844.3</b>	<b>100.0%</b>

# Key financial ratios

Ratio	2018	2019	30.09.2020
Current ratio	2.5	2.4	2.3
Quick ratio	1.5	1.7	1.8
Equity to assets	54.5%	56.0%	45.4%
Net financial debt (asset) to assets	4.4%	(6.5%)	(17.2%)
Equity to assets excluding cash	59.0%	65.8%	70.0%



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**TADIRAN**

# Strategic aims

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- Significant increase in the volume of activity in residential air conditioning through expansion into emerging markets
- Development and marketing of unique technologies and products for the treatment of indoor air quality



## Tadiran's top goals



- Sales of one million air conditioners and generate revenues of over NIS 2 billion
- Becoming established as an international player in 2-3 markets
- Provide a unique value proposition for treating indoor air quality

# Principles of the strategic plan

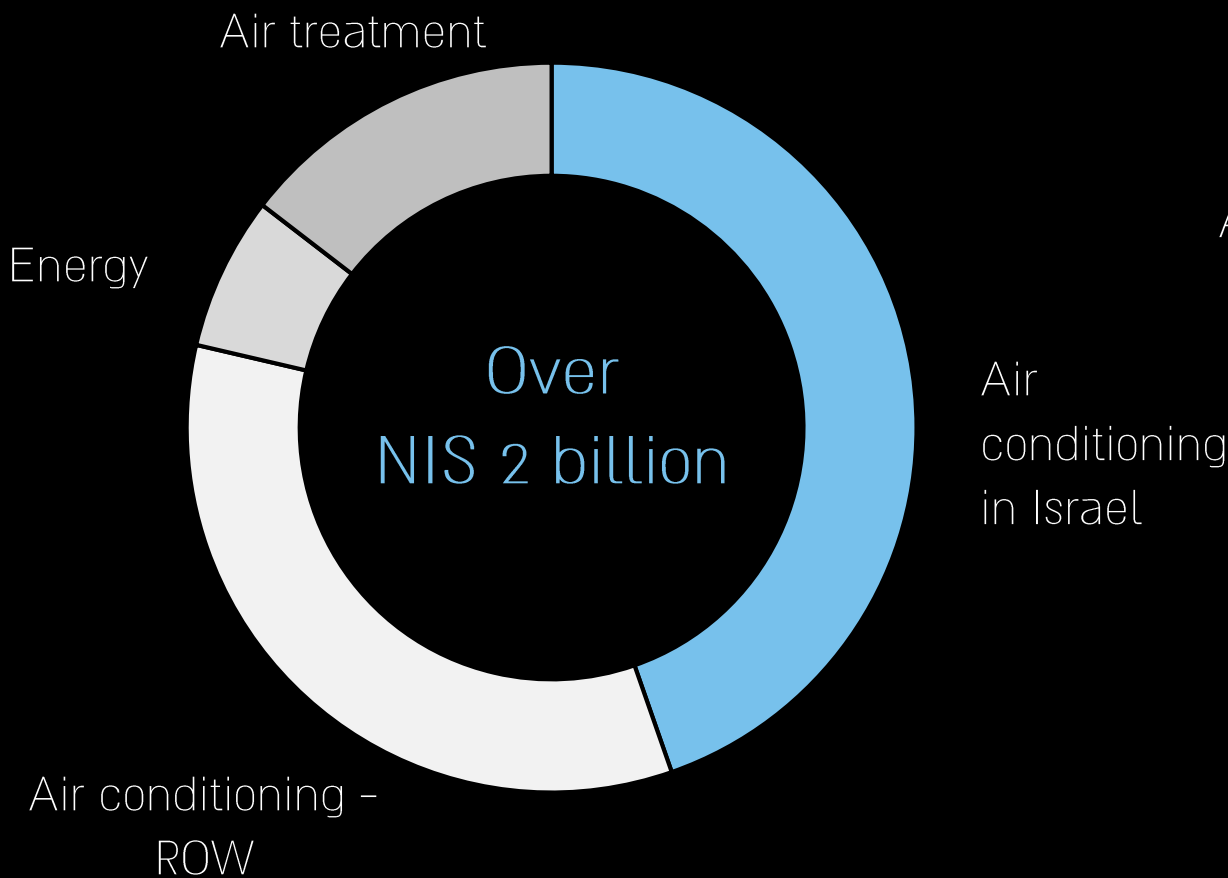
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- 1 Differentiating value proposition for air treatment
- 2 Entry into emerging markets
- 3 Expansion into synergistic areas of activity in Israel
- 4 Preserving our leading position in the local market:
  - a. Residential air conditioning
  - b. Commercial air conditioning

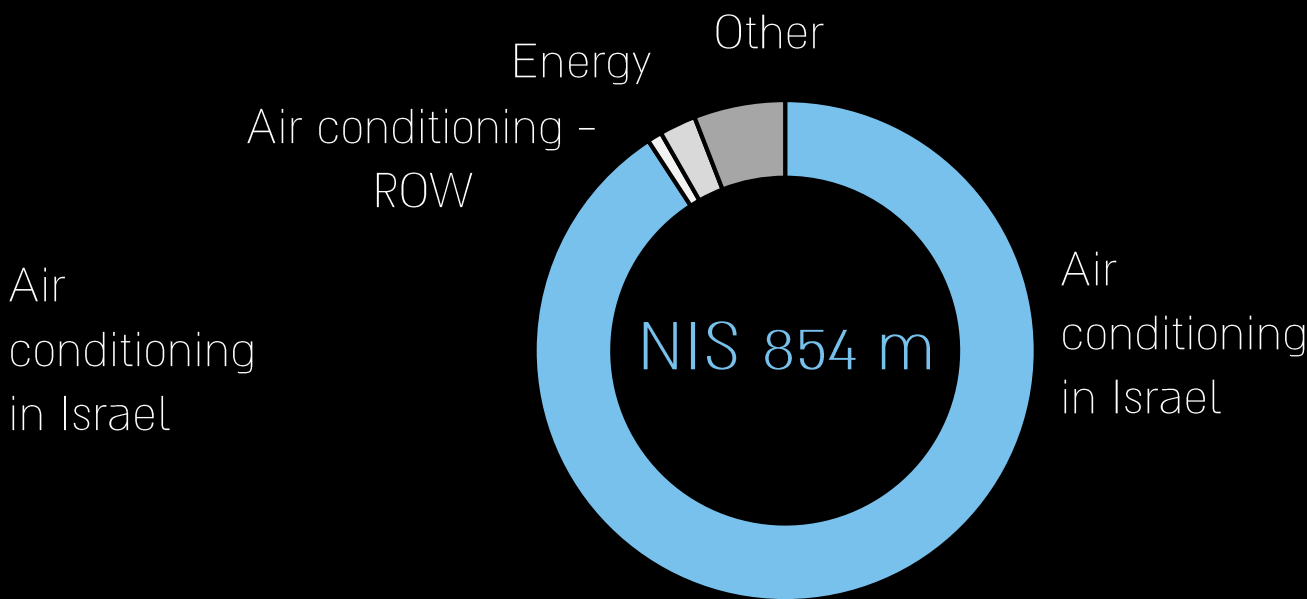
Summary: Tadiran  
will more than  
double its  
revenues in the  
coming years  
based on the  
strategic plan



Revenue breakdown – 2025



Revenue breakdown – 2019



The information in this slide is considered as Forward-Looking Information as defined in the Securities Law based, inter alia, on the Group's objectives as of this date, its assessments of the trends in the Group's businesses in particular and the trends in the market in which the Group operates in general, as well as the Group's management assessments in relation to potential and trends in the field of energy efficiency in Israel and the international markets as of the date of this report. These assessments may not materialize and / or materialize in a materially different way from the Group's assessments, inter alia, as a result of factors external to the Company and which are not under control, including changes in the state of the Israeli economy in general and the market in which the Company operates in particular, development of new and / or different trends from those that the Group's management estimates as of the date of this report, the non-realization of the potential for penetration into international markets in general, and in particular those listed above, regulatory changes and the realization of some of the risk factors described in the Company's reports.

The information which is stated in this slide constitutes Forward-Looking Information within the meaning of section 32A of the Securities Law, which may or may not materialize, to the extent and on different dates from those described due to the factors listed in slide 2 of this presentation.



Thank you



**TADIRAN**



# Appendices

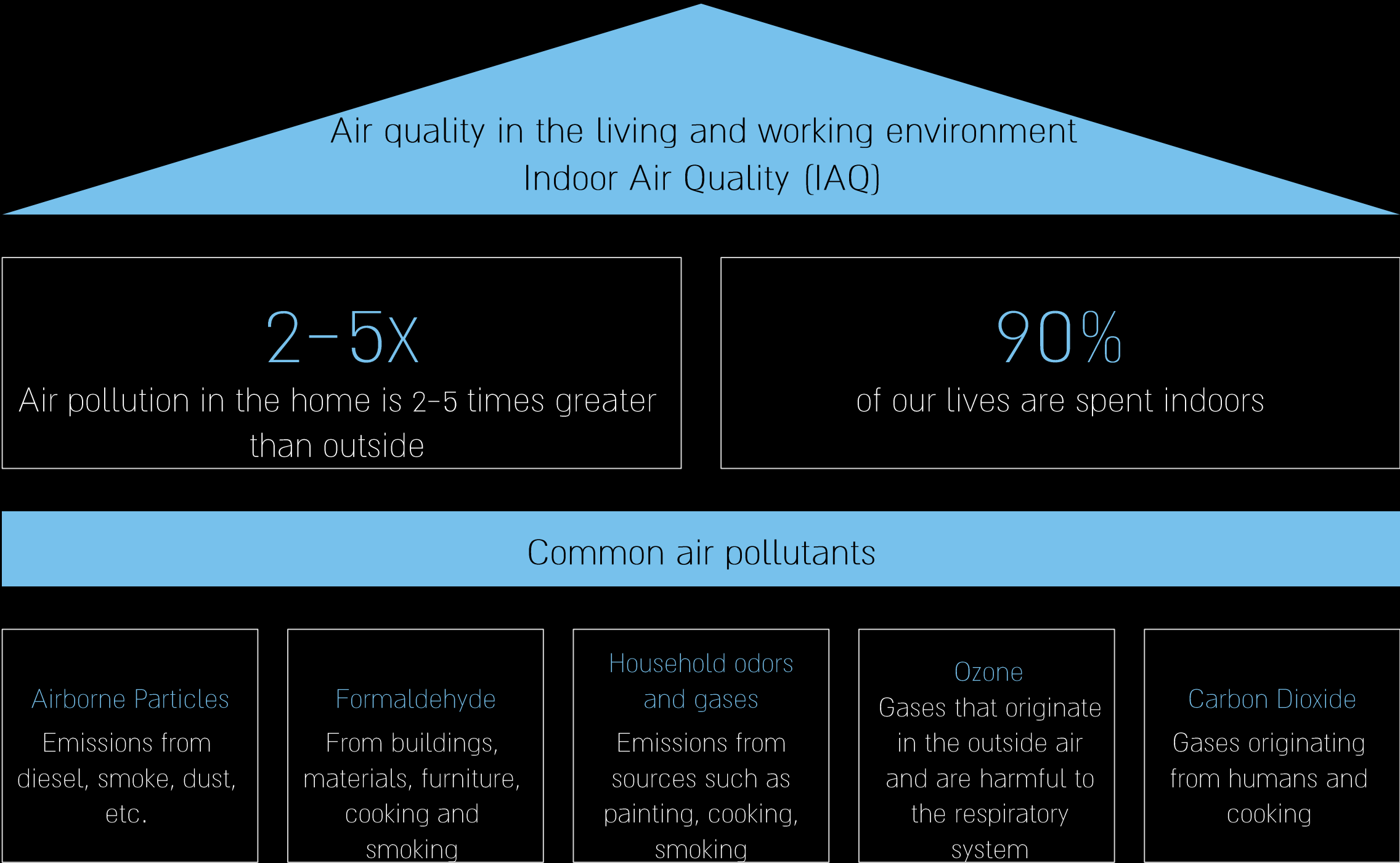


**TADIRAN**



1 Differentiating value proposition for air treatment

Our living environment is polluted by up to five times that of the outside environment



"The World Health Organization asserts that about 3 billion people are exposed to the threat of air pollution and about 3.8 million people die from domestic air pollution every year ..."

## 1 Differentiating value proposition for air treatment

The current air conditioning market is traditional and includes a limited value proposition in the field of air treatment

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- Focusing on heating and cooling only, with almost no consideration to air pollution treatment
- Does not leverage technological capabilities like artificial intelligence and advanced analytics
- Traditional business model of selling equipment without recurring revenue

## 1 Differentiating value proposition for air treatment

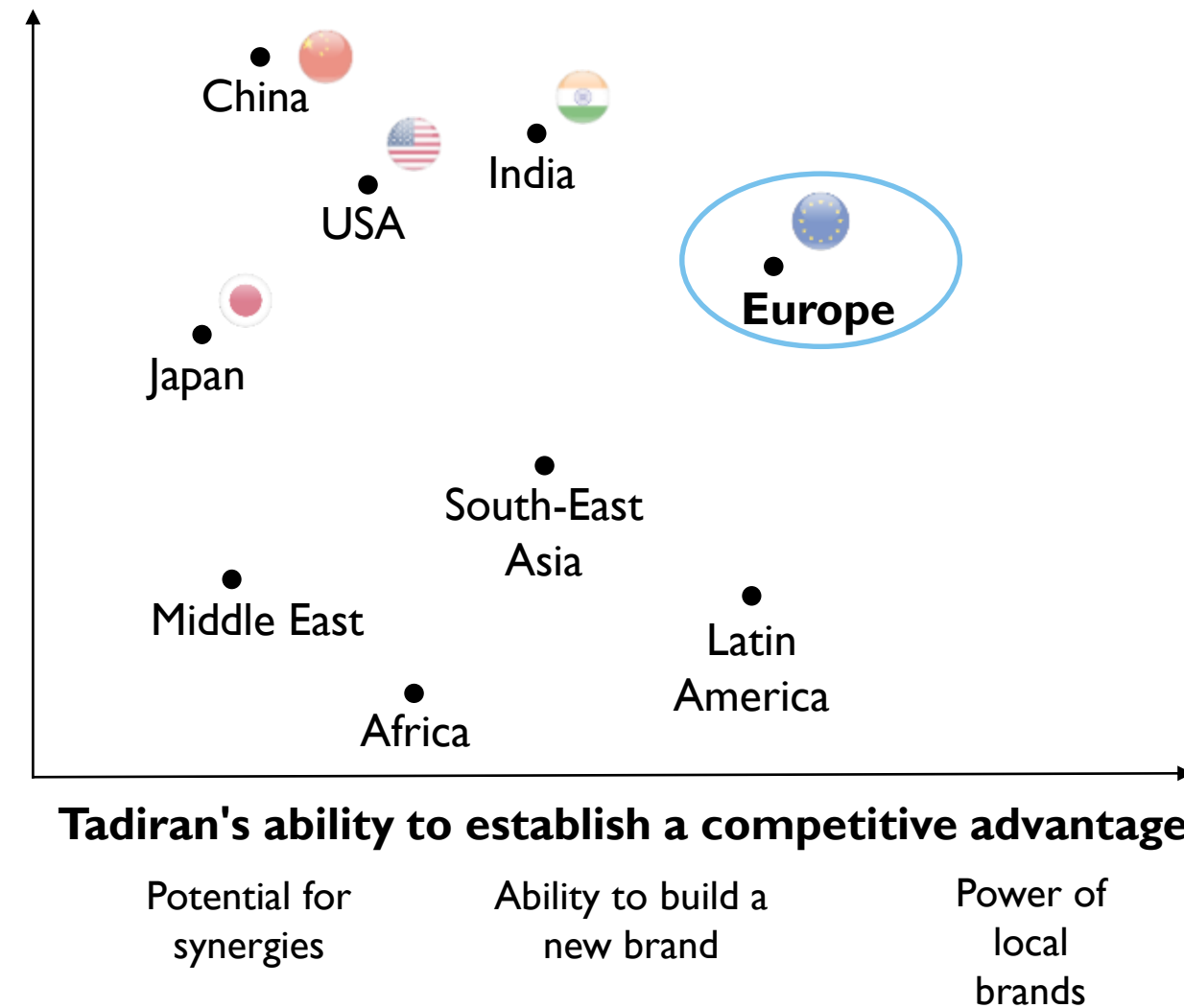
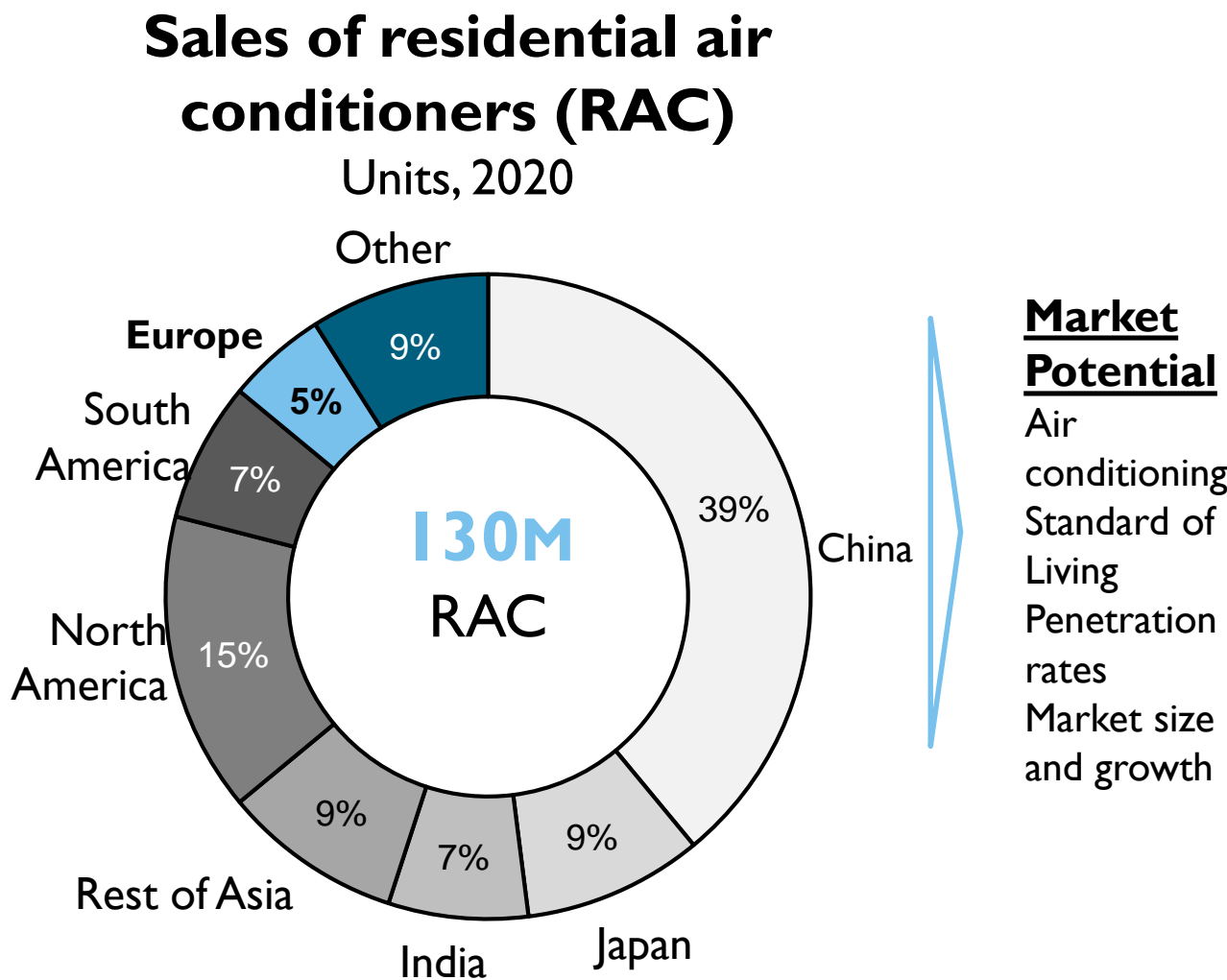
Tadiran's  
innovation  
strategy:  
a unique value  
proposition in  
indoor air quality  
treatment

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- Creating a "healthy home": Treating the air by removing harmful gases, infections, bacteria, viruses, moisture, odors, etc.
- Leveraging technology and data processing capabilities to create value for users
- Move to a Recurring Revenue model based on creating real value for users



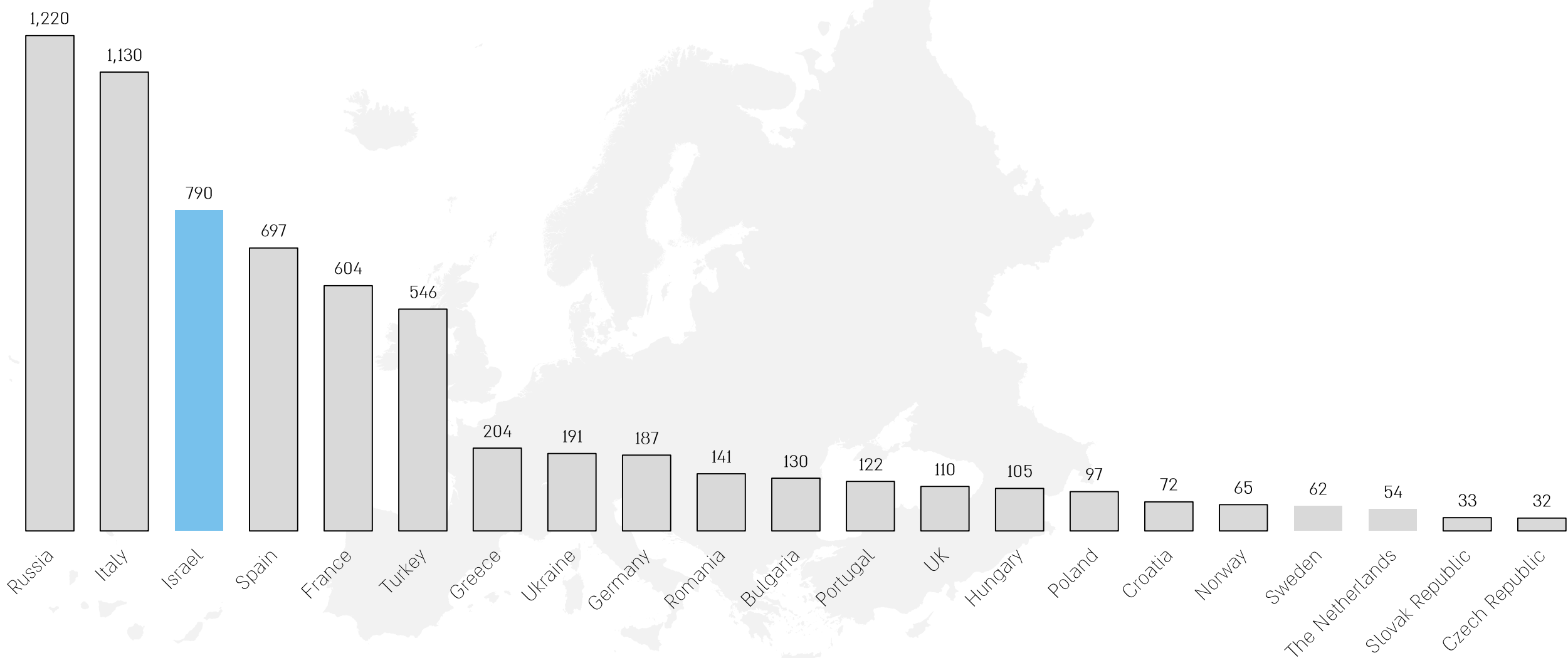
Global expansion  
into emerging  
markets: Europe is  
the most attractive  
region



Source: JRAIA Japan Refrigeration and Air Conditioning Association

Looking at Europe,  
Israel is the third  
largest market for  
home air  
conditioning

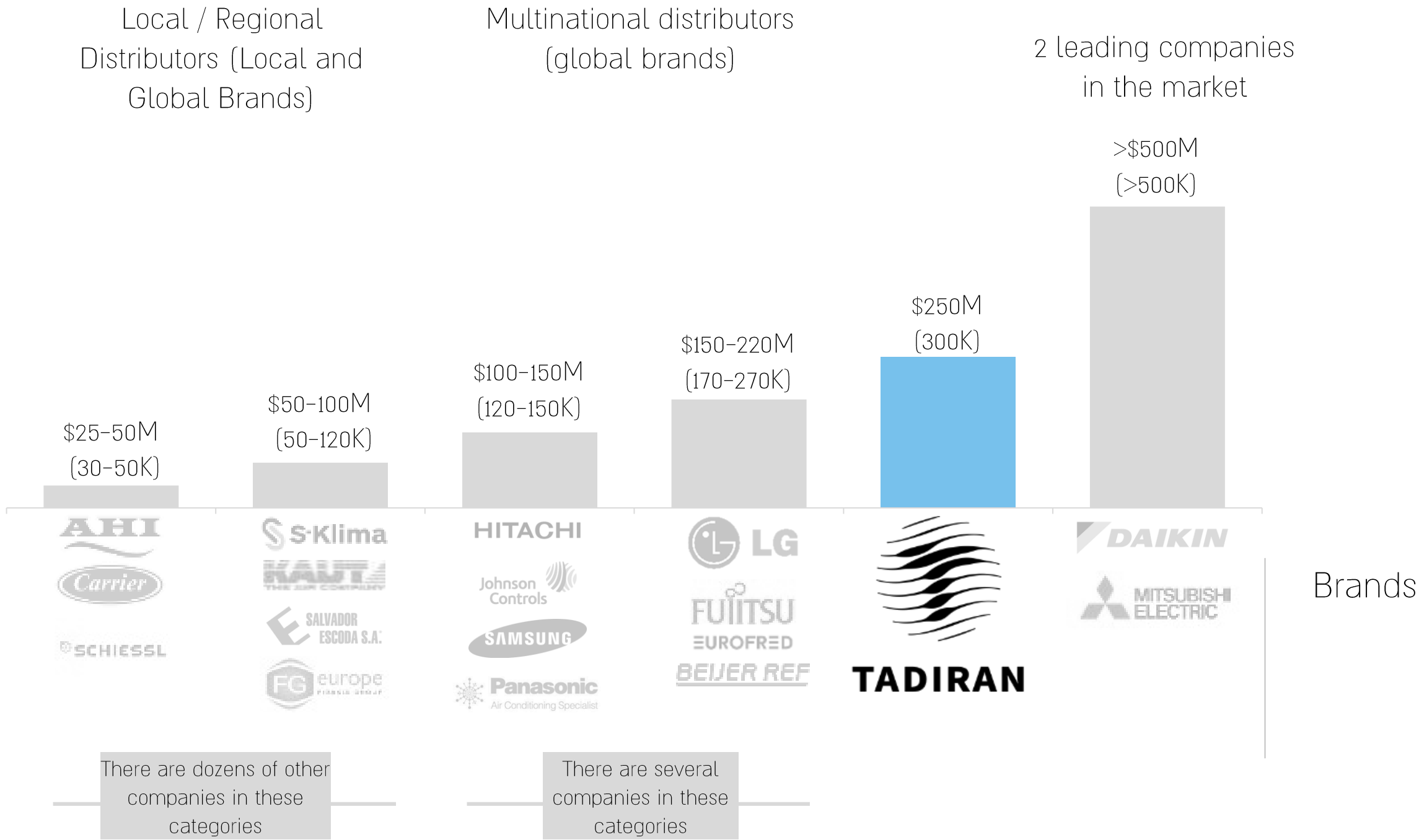
The European home air conditioning market  
Units in thousands, 2019



2 Entry into emerging markets

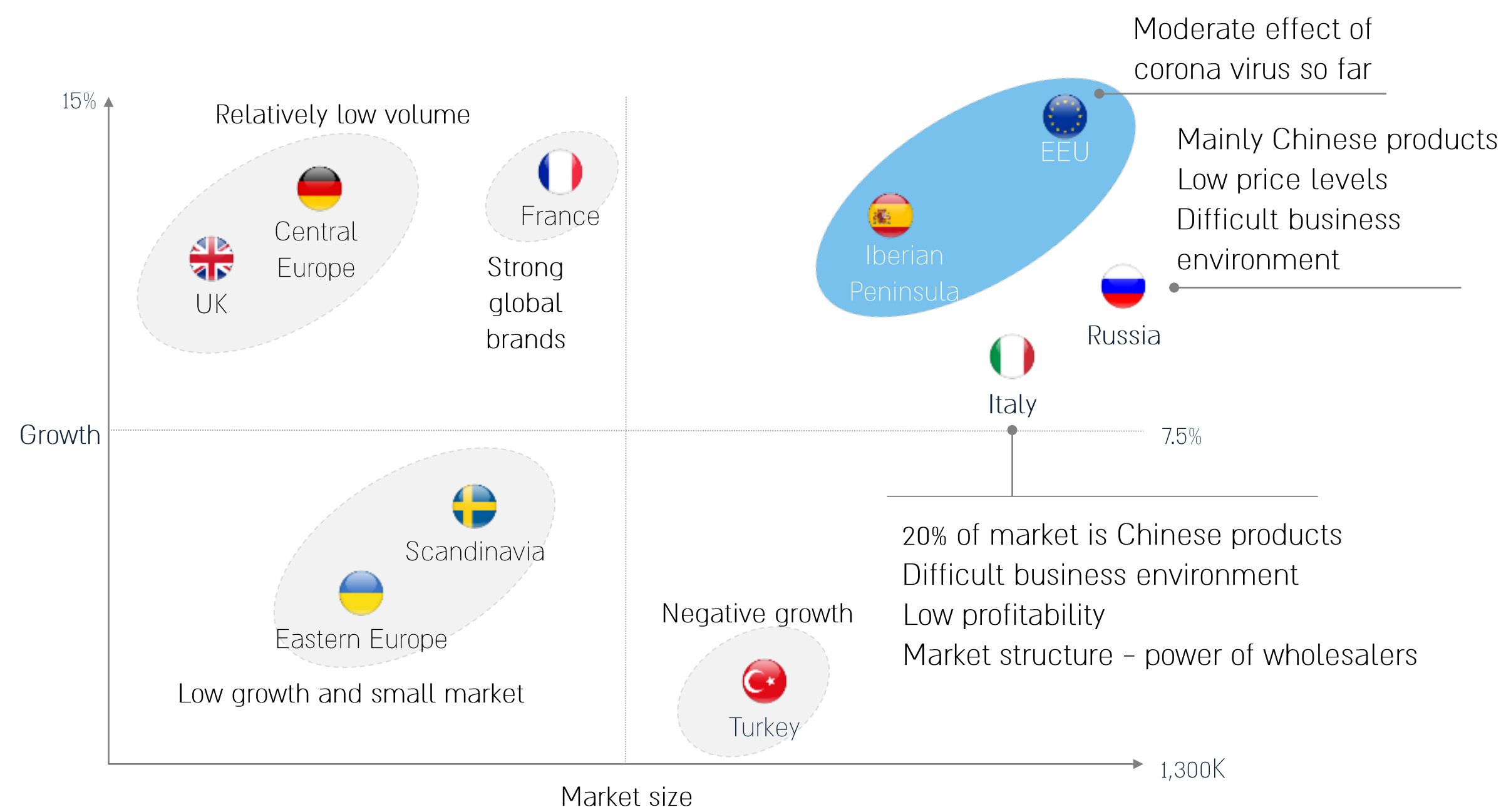
Tadiran is already positioned as one of the largest distributors in Europe

The largest distributors in Europe  
Sales in USD millions, (number of units)



Source: Market analyzes and evaluations of the consulting company Shaldor

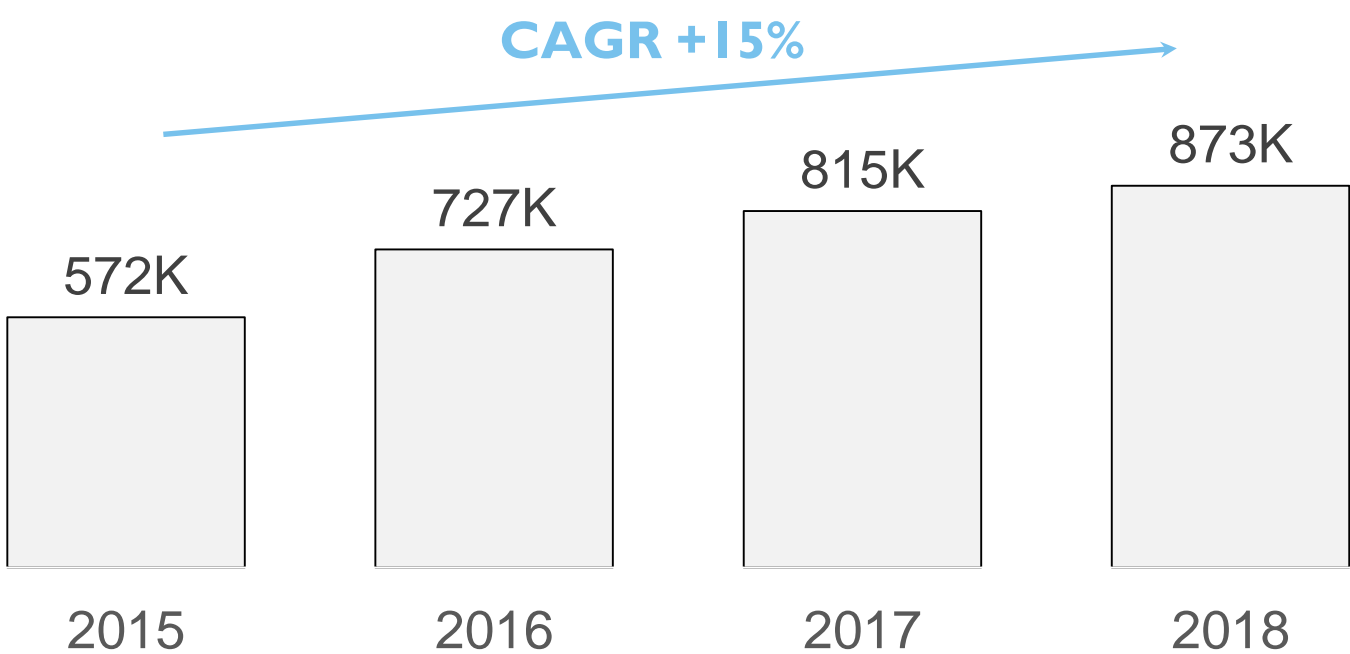
The Eastern European Union and the Iberian Peninsula have been identified as preferred areas for penetration into Europe





2 Entry into emerging markets

Eastern European Union: A large and growing market with the potential to build a competitive advantage



**Rapid and Stable Growth** - The countries of the EEU grew rapidly, even as the West declined

**Comfortable competitive environment** - about 45% Chinese products, distributed by local players

**Similar product profile** - similarity in product type, price levels and regulatory environment <sup>1</sup>

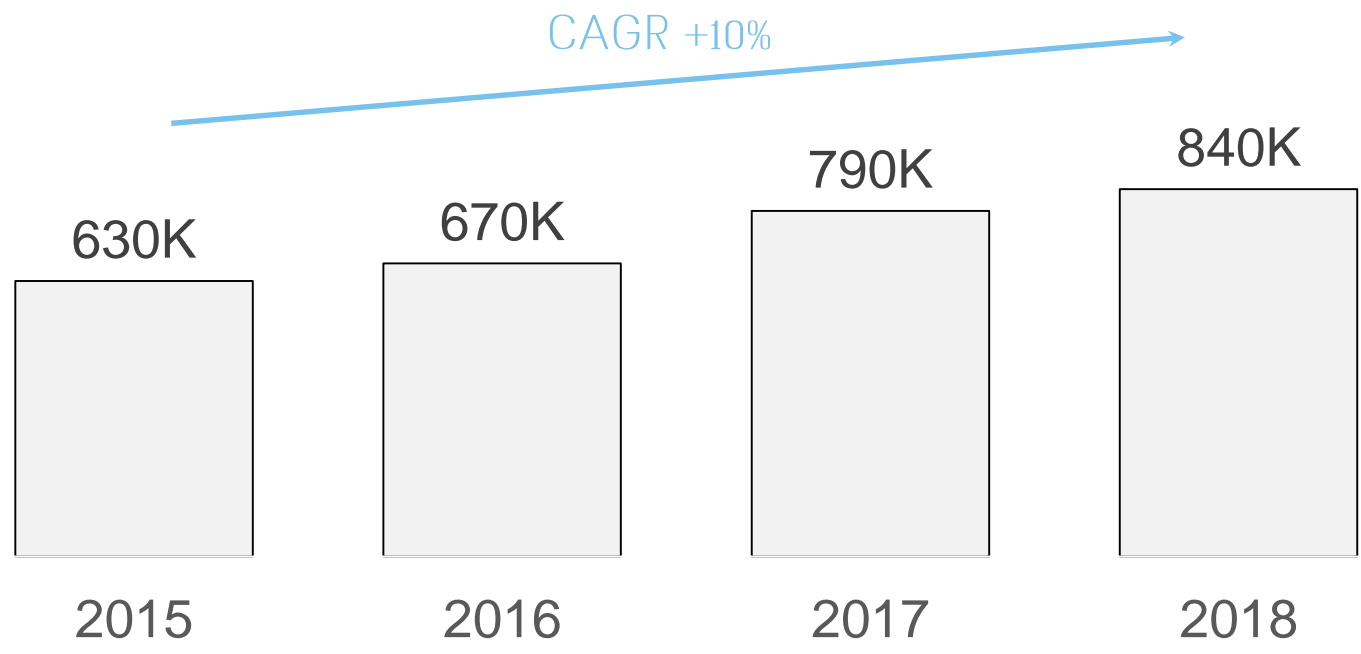
**Variation in distribution channels** - the strength of the channels (Distributors, Retail, Online) varies between countries

Sales of AC units 2015-2018

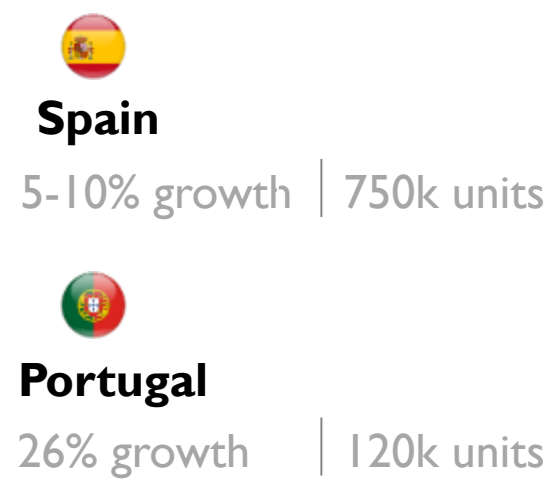


<sup>1</sup> For single-split, (except Central Europe), average price \$ 490, unified regulation  
Source: Market Research (BSRIA, JARN, JRAIA, Eurostat) Experts

Iberian Peninsula:  
an attractive  
market with stable  
growth, and a  
comfortable  
business  
environment



Sales of AC units 2015-2018



**About a third of the market comprises of Chinese and Korean products, the rest is Japanese** - the market is dominated by Japanese products (65%), but a significant share for Chinese (~30%)

**Low standard of service by domestic players are based on Chinese imports**

**Main distribution channel** – approx. 50% of the market are sub-distributors, Retail 30%

**Diverse product profile of Single and Multi** – approx. 80% of the products are Single-Splits, approx. 20% Multi / Mini Central, market transition to Inverter technology



## Entering Europe: working principles

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- Gradual entry based on the acquisition of companies with sales of tens of millions of dollars
- Leverage the local brand and gradually introduce the Tadiran brand
- Implementation of service standards and operations in accordance with market needs while implementing Tadiran capabilities
- Launch of new products according to market needs while leveraging Tadiran's engineering capabilities
- Exploitation of synergies in development, production and procurement (including export benefits)



3 Expansion into synergistic areas of activity in Israel

## Expanding activities in the field of energy efficiency, management and selling energy

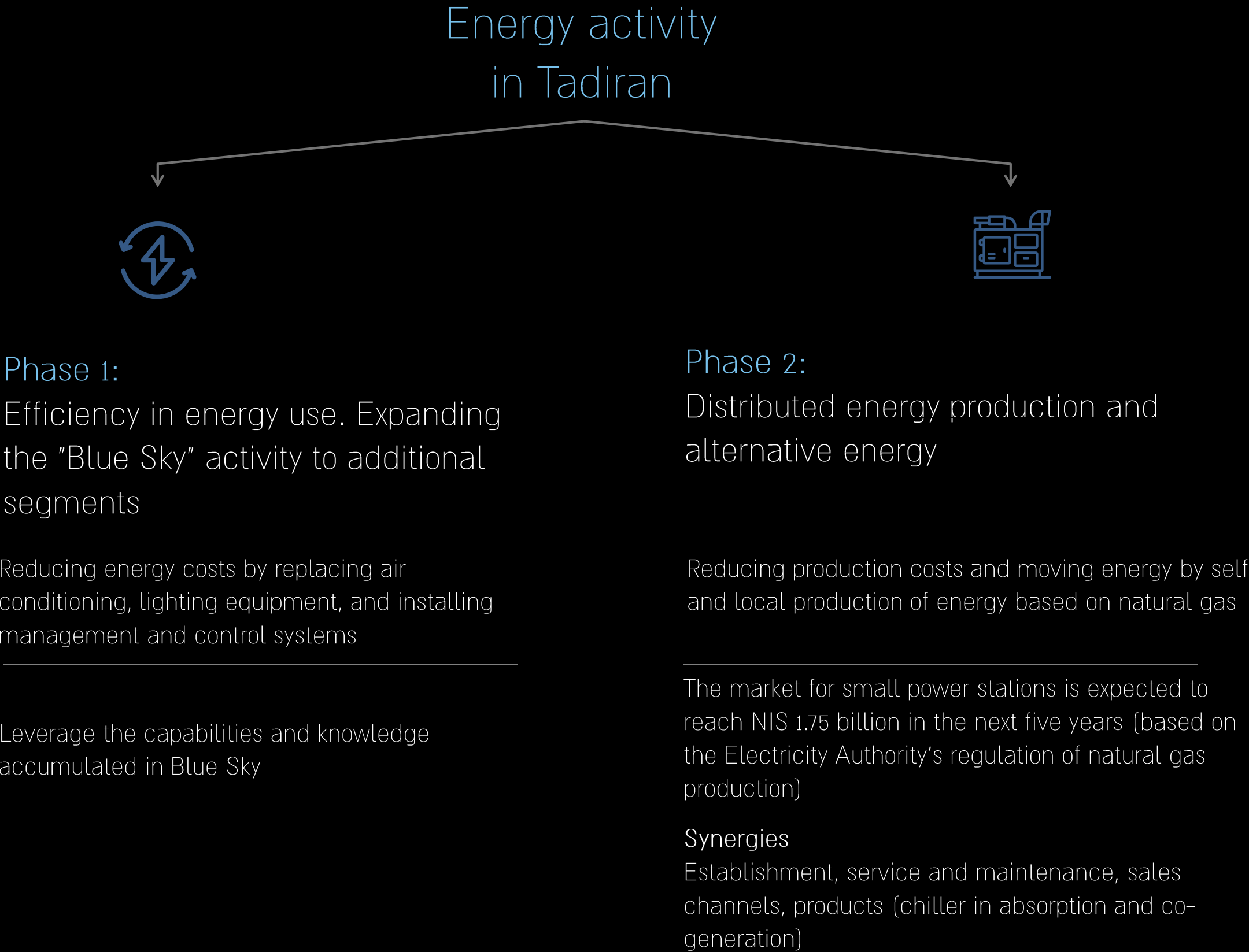
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- Increasing demand for energy efficiency solutions and switching to alternative energies and distributed energy production
- Tadiran is well positioned to operate in this market:
  - High weighting of air conditioning systems in energy consumption
  - Knowledge, products and expertise
  - Relevant experience in the framework of 'Blue Sky' — our ESCO project
  - High reliability, valued brand
  - Financing capabilities

3 Expansion into synergistic areas of activity in Israel

# Tadiran is expanding its energy activities in two phases



4a Preserving the lead in the local market: Residential Air Conditioning

# Preserving the lead in the local market: residential air conditioning

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## Background

The residential air conditioning market in Israel is estimated to be NIS 2.2 billion and is growing at an annual rate of 4.3%<sup>1</sup>

The domestic air conditioning market is expected to grow in the coming years

Tadiran has presence and leadership in all channels: installers, wholesalers, retailers, institutional market

## Strategy focus

- 
- 1 Continue to strengthen the brand
  - 2 Maintaining the quality gap in products and service
  - 3 Investment in differentiation, technology and innovation

<sup>1</sup> in units. The data is based on the company's evaluation

4b Preserving the lead in the local market: Commercial Air Conditioning

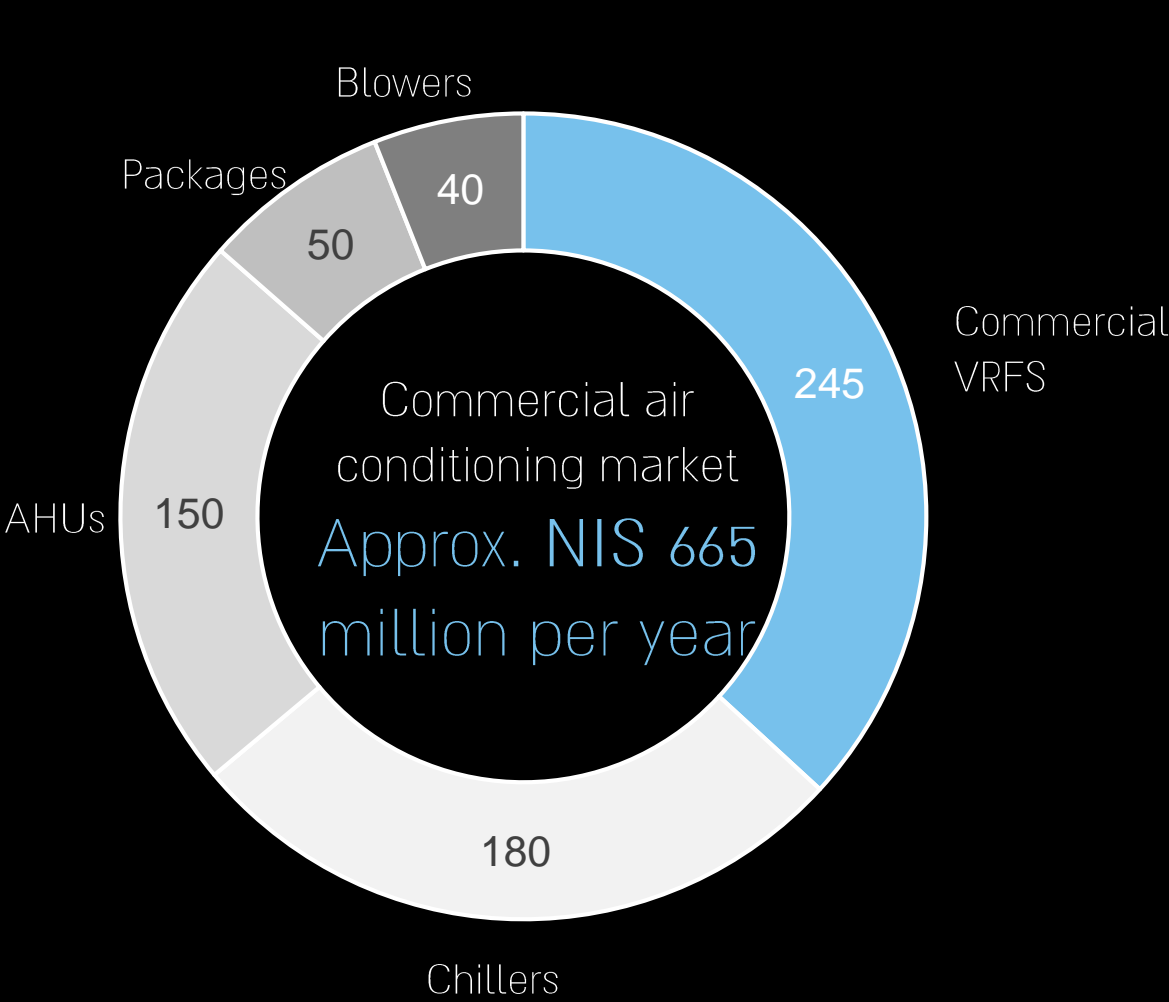
# Expansion of activity in the commercial-industrial market



## Background

Tadiran has a relatively small market share of the commercial-industrial market (approx. 5% mainly based on VRF and chillers)

Tadiran is currently not present in several segments / products that could be entered, and gain market share based on import and export



## Strategy focus

Leverage Tadiran’s strengths to expand its value proposition and build a broad product portfolio:

- 1 Brand
- 2 Level of service
- 3 Engineering capabilities
- 4 Network of business relationships and collaborations, import and trade capabilities