

## MIRA INFORM REPORT

<b>Report No. :</b>	533546
<b>Report Date :</b>	11.10.2018

### IDENTIFICATION DETAILS

<b>Name :</b>	SPECTRONIX LTD.
<b>Registered Office :</b>	P.O. Box 29 (8701001) 8 Kehilat Milano Street Industrial Zone Sderot 8714508
<b>Country :</b>	Israel
<b>Financials (as on) :</b>	30.06.2015 (Consolidated)
<b>Date of Incorporation :</b>	12.01.1967
<b>Legal Form :</b>	Private limited company
<b>Line of Business :</b>	Manufacturers, importers, exporters and marketers of fire and gas detection systems for industrial (civilian) applications (comprising 74% of revenues in 2014, 80% in 2013), and fire detection and suppression systems for military applications (comprising some 26% of revenues in 2014, 20% in 2013).
<b>No. of Employees :</b>	170

### RATING & COMMENTS

(Mira Inform has adopted New Rating mechanism w.e.f. 23<sup>rd</sup> January 2017)

<b>MIRA's Rating :</b>	A
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Credit Rating	Explanation	Rating Comments
A	Acceptable Risk	Business dealings permissible with moderate risk of default

<b>Status :</b>	Satisfactory
<b>Payment Behaviour :</b>	No Complaints
<b>Litigation :</b>	Clear

#### NOTES :

Any query related to this report can be made on e-mail : [infodept@mirainform.com](mailto:infodept@mirainform.com) while quoting report number, name and date.

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**ECGC Country Risk Classification List**

Country Name	Previous Rating (30.06.2018)	Current Rating (30.09.2018)
Israel	B1	B1

Risk Category	ECGC Classification
Insignificant	A1
Low Risk	A2
Moderately Low Risk	B1
Moderate Risk	B2
Moderately High Risk	C1
High Risk	C2
Very High Risk	D

**ISRAEL - ECONOMIC OVERVIEW**

Israel has a technologically advanced free market economy. Cut diamonds, high-technology equipment, and pharmaceuticals are among its leading exports. Its major imports include crude oil, grains, raw materials, and military equipment. Israel usually posts sizable trade deficits, which are offset by tourism and other service exports, as well as significant foreign investment inflows.

Between 2004 and 2013, growth averaged nearly 5% per year, led by exports. The global financial crisis of 2008-09 spurred a brief recession in Israel, but the country entered the crisis with solid fundamentals, following years of prudent fiscal policy and a resilient banking sector. Israel's economy also weathered the 2011 Arab Spring because strong trade ties outside the Middle East insulated the economy from spillover effects.

Slowing domestic and international demand and decreased investment resulting from Israel's uncertain security situation reduced GDP growth to an average of roughly 2.8% per year during the period 2014-17. Natural gas fields discovered off Israel's coast since 2009 have brightened Israel's energy security outlook. The Tamar and Leviathan fields were some of the world's largest offshore natural gas finds in the last decade. Political and regulatory issues have delayed the development of the massive Leviathan field, but production from Tamar provided a 0.8% boost to Israel's GDP in 2013 and a 0.3% boost in 2014. One of the most carbon intense OECD countries, Israel generates about 57% of its power from coal and only 2.6% from renewable sources.

Income inequality and high housing and commodity prices continue to be a concern for many Israelis. Israel's income inequality and poverty rates are among the highest of OECD countries, and there is a broad perception among the public that a small number of "tycoons" have a cartel-like grip over the major parts of the economy. Government officials have called for reforms to boost the housing supply and to increase competition in the banking sector to address these public grievances. Despite calls for reforms, the restricted housing supply continues to impact younger Israelis seeking to purchase homes. Tariffs and non-tariff barriers, coupled with guaranteed prices and customs tariffs for farmers kept food prices high in 2016. Private consumption is expected to drive growth through 2018, with consumers benefitting from low inflation and a strong currency.

In the long term, Israel faces structural issues including low labor participation rates for its fastest growing social segments - the ultraorthodox and Arab-Israeli communities. Also, Israel's progressive, globally competitive, knowledge-based technology sector employs only about 8% of the workforce, with the rest mostly employed in manufacturing and services - sectors which face downward wage pressures from global competition. Expenditures on educational institutions remain low compared to most other OECD countries with similar GDP per capita.

Source : CIA

## ***COMPANY NAME AND ADDRESS***

### **SPECTRONIX LTD.**

Telephone 972 8 687 54 44  
972 54 774 73 40 (Tal Laufer)  
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P.O. Box 29 (8701001)  
8 Kehilat Milano Street  
Industrial Zone  
SDEROT 8714508 ISRAEL

## ***HISTORY & LEGAL FORMATION***

Originally incorporated as a private limited company and registered as such as per file No. 51-048039-5 on the 12.01.1967.

Converted into a public limited company and registered as such as per file No. 52-003363-0 on the 06.10.1982. At a later date have also published prospectus offering shares to the public.

Following acquisition by THE EMERSON ELECTRIC CO. in September 2015, shares were de-listed from trade and subject re-converted into a private limited company on the 07.09.2015 (keeping the 52-003363-0 registration No.). As part of the acquisition (reverse triangle merger), on the 07.09.2015 the designated company VULCAN ACQUISITIONS (2015) LTD. was merged into subject.

## ***SHARE CAPITAL***

Authorized share capital NIS 8,800,000.00, divided into -  
8,800,000 ordinary shares of NIS 1.00 each,  
of which 8,636,781 shares amounting to NIS 8,636,781.00 were issued.

## ***SHAREHOLDERS***

Subject is fully owned by EMERSON PROCESS MANAGEMENT ASIA PACIFIC PRIVATE LIMITED, fully owned by THE EMERSON ELECTRIC CO., a public limited company, shares are traded on the New York Stock Exchange (NYSE).

In September 2015 EMERSON completed the acquisition of subject in consideration of US\$ 99 million., including the controlling shares (35.5%) of Yechiel Spector (was also the General Manager since 1979) and the 16% of the SKY Investment Fund.

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Note: Yechiel Spector no longer works in, or associated to subject.

## **DIRECTORS**

1. Tal Laufer, General Manager,
2. Shaun P. Taylor, of the UK,
3. Richard C. Graves, of the UK.

## **BUSINESS**

Manufacturers, importers, exporters and marketers of fire and gas detection systems for industrial (civilian) applications (comprising 74% of revenues in 2014, 80% in 2013), and fire detection and suppression systems for military applications (comprising some 26% of revenues in 2014, 20% in 2013).  
Systems are used for armoured vehicles, naval vessels, aircraft and civil application etc.

Most of sales are for export.

Main local client: Israel Defense Force (I.D.F), as well as ISRAEL RAILWAYS.

Among foreign clients: US Army, OSHKOSH, BAE, TYCO, GRINELL, WORMALD, KIDDE INT., EFS, Hung Hum Hong Kong train station.

Subject cooperates with world leading engineering firms: SIEMENS, HONYWELL, ABB, BROWN & ROOT.

Subject maintains OEM agreements with: MINE SAFETY APPLIANCES CO., NOHMI, etc.

Among final clients of big projects for subject's products: B.P, SHELL, EXXON, STATOIL, etc.

Among local suppliers: ISRAEL CARGO LOGISTICS (forwarding), RAYTEK ELECTRONICS, CIDEV AGENCIES, etc.

Operating from rented premises (offices and plants), on total built area of 7,500 sq. metres, in 8 Kehilat Milano Street, Industrial Zone, Sderot, from rented offices in Yehud, on an area of 158 sq. meters, and from subsidiary premises in the U.S.A (New Jersey and Texas).

Had 170 employees in the beginning of 2018, which is also the number which appears in a media report from August 2018 (had 183 employees in 2015).

Having some 76,500 employees serving EMERSON Group.

## **FINANCIAL**

### **MEANS**

Consolidated B/S shows (last obtainable):

US\$ (thousands)

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	<u>31.12.2014</u>	<u>30.06.2015</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	25,370	25,992
Customers	6,453	7,027
Other accounts receivables	1,448	1,772
Inventories	<u>19,231</u>	<u>18,935</u>
	52,502	53,726
Non-current assets		
Fixed assets	2,999	3,097
Intangible assets	6,221	6,305
Other non-current assets	<u>1,176</u>	<u>1,149</u>
	<u>10,396</u>	<u>10,551</u>
	62,898	64,277
	=====	=====
<b>LIABILITIES</b>		
Current liabilities		
	6,160	8,142
Non-current liabilities		
	11,559	13,640
Equity		
	<u>51,339</u>	<u>50,637</u>
	62,898	64,277
	=====	=====

Subject was valued at US\$ 99 million for the acquisition by EMERSON in 2015.

Subject enjoys the financial strength of THE EMERSON ELECTRIC CO. whose main B/S indicators show:  
(fiscal year ends 30.09, US\$ millions):

	<u>30.06.2018</u>	<u>30.09.2017</u>
Total assets	20,487	19,589
Equity	8,413	8,718

THE EMERSON ELECTRIC CO. current market value US\$ 46.1 billion.

Subject is an "Approved Enterprise" and as such entitled for State support and tax relieves. In 2000 the Israeli Investment Centre (IIC) approved a US\$ 277,000 investment plan for the expansion of subject's plant. In 2004 the IIC approved a US\$ 790,000 investment plan for the expansion of subject's plant.

There is 1 charge for an unlimited amounts registered on the company's assets (all assets), in favor of Bank Hapoalim Ltd. (charge placed 2008).

**REVENUES**

**Consolidated Statement of Income**

**US\$ (thousands)**

**Year ended 31.12**

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Sales	40,425	34,822	40,063

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**SPECTRONIX LTD. - 533546**

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Gross profit	13,617	11,583	14,973
Operating profit	3,791	3,555	6,450
Profits before taxes on income	3,960	2,300	5,559
Net profit (loss)	(1,810)	2,608	5,298
	=====	=====	=====

Consolidated revenues for the first 6 months of 2015 were US\$ 20,059,000, making a gross profit of US\$ 8,018,000, an operating income of US\$ 2,156,000, and a net income of US\$ 1,774,000.  
Later sales data not forthcoming.

THE EMERSON ELECTRIC CO. consolidated sales (fiscal year ends 30.09):  
2016 sales were US\$ 14,522 million, making a net profit of US\$ 1,635 million.  
2017 sales were US\$ 15,264 million, making a net profit of US\$ 1,518 million.  
First 9 months of 2018 sales were US\$ 12,250 million, making a net profit of US\$ 1,586 million.

**OTHER COMPANIES**

Subsidiaries (all in Israel unless otherwise stated):  
E. BUSINESS DEVELOPMENT, E.B.D.COM LTD.,  
EUROTRONICS SISTEMAS DE SEGURIDAD S.A., Spain  
FIRE & SAFETY GROUP.COM LTD.,  
NOVEL ENVIRONMENTAL TECHNOLOGIES LTD.,  
NOVEL EXTINGUISHING AGENT TECHNOLOGY LTD.,  
GREENEX LTD.,  
S.F.T. GROUP LTD.

EMERSON ELECTRIC CO., established 1890, diversified global manufacturing company, operating in 4 segments: Process Management, Industrial Automation, Climate Technologies and Commercial & Residential Solutions.

**BANKERS**

According to our (since we could not speak to subject's CFO, we are unable to verify the u/m bank details):  
Bank Hapoalim Ltd., Rehovot Business Branch (No. 412), Rehovot, account No. 241668.

A check with the Central Banks' database did not reveal any negative information regarding subject's a/m account.

Bank Leumi Le'Israel Ltd., Beer Sheva Business Branch (No. 607), Beer Sheva.

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## ***CHARACTER AND REPUTATION***

Nothing unfavorable learned.

Despite our efforts, we were unable to speak with subject's CFO as she was always unavailable. We left messages which so far remain unanswered.

Subject is long established and enjoys good reputation for its products in the world.  
The Company meets international standards, including ISO-9001.

In April 2007 subject reported on couple of deals: 280 combat detection systems for a NATO state, in value of US\$ 1.4 million and a US\$ 1.7 million for another army of a NATO state.

In addition subject announced on orders for the U.S. Marines for its systems, in several orders during 2007 in total in value of US\$ 8 million.

In the first quarter of 2008 subject announced that BAE ordered further systems for the American Army projects in accumulative value of US\$ 18.3 million to be delivered in 2008.

During 2008 subject completed the development of Hydrogen Fire Detectors, intended for hydrogen cars and industry.

During the first half of 2009 subject received several deals from the US Army, totaling over US\$ 35 million.

In October 2010 subject reported it will supply the US Army systems in volume of US\$ 7 million.

In November 2011 subject reported it will supply fire suppressing susytems to European clients in volume of US\$ 7.4 million.

In April 2012 subject reported it will supply the US Army systems in volume of US\$ 3.5 million.

In June 2015 subject reported it won a tender to supply detection and extinguishing of fire for armored vehicles from a European client, in volume of US\$ 12.6 million.

In August 2016 subject reported that AMEREX CORP. (which installs subject's systems in OSHKOSH's military vehicles), informed subject that OSHKOSH won the US Army's to supply thousands of vehicles.

In March 2017 it was reported that subject installed 500 optical fire detection systes inn Hong Kong larges train staion Hung Hom.

In September 2017 it was reported that subject will supply 60 fire detection and extinguishing systems to ISRAEL RAILWAYS locomotives.

The Central Bureau of Statistics (CBS) data reveals that investments (capital formation) by the local manufacturing industries in machinery & equipment (M&E) in 2017 (quantity change compared to the previous year) rose by 7.9% in 2017, after rise by 18.1% in 2016 and by 1.2% in 2015. The investments whose source was from import, which comprised 75% of total investment by the industries in M&E, rose by 11.3% in 2017 (after

+28.6% in 2016, +0.6% in 2015), while investments whose source was from domestic production decreased by 1.3% in 2017 (-3.9% in 2016, +2.5% in 2015).

Gross investment in machinery & other equipment in 2017 reached NIS 53,605 million in current prices (NIS 49,659 million in 2016), of which NIS 40,739 million was from imported production (NIS 36,601 in 2016 million) and NIS 12,890 million from domestic production (NIS 13,058 million in 2016).

Israel is considered one of the largest exporters of military and defense equipment in the world, with volume of 2014 sales by the Israeli defense/ military industries reaching US\$ 8.2 billion, placing Israel the world's 8<sup>th</sup> largest.

Export by the Israeli military and defense companies amounted to US\$ 9.1 billion in 2017, representing 40% jump from 2016 (US\$ 6.5 billion, compared to US\$ 5.7 billion in 2015, similar to 2014, was US\$ 6.5 billion in 2013). In terms of world trade in these sectors, Israel share comprised 2.9% of the global sales.

The division of export in 2017 was: ballistics and areal defense systems (31%), radars & EW (17%), aircraft renovation and systems (14%), ammunition & weapons (9%), teleprocessing & communications (9%), reconnaissance & electro-optics (8%), intelligence & cyber (5%), and others (7%).

Asia & Pacific is the largest geographical market for the export (58%), while the U.S.A. is the largest country market for the military and defense industries' export.

Sales by the 4 largest local defense industries (ELBIT, IAI, RAFAEL and IMI SYSTEMS) comprise some 75%-80% of overall sales. There are some 700 companies in the branch, most small and medium.

## **SUMMARY**

Notwithstanding the lack of updated details from subject's officials, considered good for trade engagements.

**FOREIGN EXCHANGE RATES**

Currency	Unit	Indian Rupees
US Dollar	1	INR 74.13
UK Pound	1	INR 97.63
Euro	1	INR 85.26
ILS	1	INR 20.38

**Note** : Above are approximate rates obtained from sources believed to be correct

**INFORMATION DETAILS**

Analysis Done by :	NIY
Report Prepared by :	TRU

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**RATING EXPLANATIONS**

Credit Rating	Explanation	Rating Comments
A++	Minimum Risk	Business dealings permissible with minimum risk of default
A+	Low Risk	Business dealings permissible with low risk of default
A	Acceptable Risk	Business dealings permissible with moderate risk of default
B	Medium Risk	Business dealings permissible on a regular monitoring basis
C	Medium High Risk	Business dealings permissible preferably on secured basis
D	High Risk	Business dealing not recommended or on secured terms only
NB	New Business	No recommendation can be done due to business in infancy stage
NT	No Trace	No recommendation can be done as the business is not traceable

NB is stated where there is insufficient information to facilitate rating. However, it is not to be considered as unfavourable.

This score serves as a reference to assess SC's credit risk and to set the amount of credit to be extended. It is calculated from a composite of weighted scores obtained from each of the major sections of this report. The assessed factors are as follows:

- Financial condition covering various ratios
- Company background and operations size
- Promoters / Management background
- Payment record
- Litigation against the subject
- Industry scenario / competitor analysis
- Supplier / Customer / Banker review (wherever available)