

Full Year Results 2019

Sales Revenues of USD 38,425 thousand leads to a net profit of USD 8,767 thousand for the year 2019.

Ness-Ziona (Israel) – Payton Planar Magnetics (the "Company" or "Payton") today announced its financial results for the year ending December 31, 2019.

Sales revenues for 2019 totaled USD 38,425 thousand compared to USD 45,623 thousand on year 31, 2018.

The net profit for 2019 amounted to USD 8,767 thousand compared to USD 11,361 thousand on year 2018.

In 2019, there was a decrease in the Group's demands, especially among two of its main costumers, which caused a decrease in the sales compared to year 2018. The Group estimates that year 2020 will be characterized by similar operation volume to year 2019, assuming that the effect of the Corona Virus crisis will end by the second half of the year 2020, see hereinafter.

The spread of the Corona Virus initially caused the disruption and the shutdown of the activity in China and later on to disruptions in the rest of the world. The cease of the activity in China followed by the gradual return to work, still causes delays and rejections in both the supply of raw materials and of transformers, by the Group's suppliers and sub-contractors.

The widespread expansion of the Corona Virus to additional countries in the world, including Israel, the Philippines, the US etc. has wide macroeconomic implications. The expansion of traffic restrictions, restrictions on congregation, transport restrictions, closure of borders between countries and the like, in the world and in Israel, might naturally lead to a material negative effect on the Group's activity. The negative impact is reflected both in the production capacity of the Group and its suppliers, in the ability of its customers to continue to work and fulfill their orders and also logistical problems of transport as a result.

According to the information and indications currently known to the Group, it seems that if the activity in China, Philippine and Israel will fully return to normal by the end of the second quarter of 2020, the Group will be able to catch up with the gap and meet its yearly targets. However, and due to the uncertainty that prevails in Israel and all over the world, the Group cannot evaluate at this stage, the full negative impact of the spread of the Corona Virus on its activity and on its financial results.

It is noted that the above statement is a forward-looking statement as defined below.

As at December 31, 2019 this backlog amounted to USD 13,505 thousand, and as of March 8, 2020 to USD 17,490 thousand (December 31, 2018 - USD 16,026 thousand). The backlog is composed of the Company and its two fully owned subsidiaries firm orders.

At the end of 2018 and at the beginning of 2019, the Company entered into framework agreements with one of its principle costumers (Customer C) for the supply of magnetic components to three (3) different projects in the electric/hybrid vehicle industry (HEV). The nature of the activity in the automotive industry is characterized by projects with a productive lifespan of about 5 to 7 years.

As of December 31, 2019 and as of the date of the signing of the financial statements, the Group estimates that only one of those three projects, with predicted orders in the scope of about USD 1.5 million per year, will be executed during the years 2020 to 2024. Regarding the remaining predicted orders according to the Framework Agreements, amounting up to USD 63 million, the Group cannot evaluate whether those predicted orders will materialize and at what time table.

It is noted that the above statement is a forward-looking statement as defined below.

Key financial highlights in 2019

Sales revenues

The Group's sales revenues for year 2019 were USD 38,425 thousand compared with USD 45,623 thousand in year 2018 decrease of 16%. Sales decrease was attributed mainly due decrease in the Group's demands, especially among two of its main costumers.

Cost of sales & gross result

The Group's cost of sales for year 2019 were USD 21,585 thousand compared with USD 25,192 thousand in year 2018. The Group's gross results for the year ended December 31, 2019 were USD 16,840 thousand (44%), compared with USD 20,431 thousand (45%), in the year ended December 31, 2018. The group succeeded to maintain its gross margin at about the same level, in spite of the sales decrease.

Expenses

The Group's General & Administrative expenses for the year ended December 31, 2019 amounted to USD 3,432 thousand compared with USD 3,403 thousand in the year ended December 31, 2018.

The Group's selling & marketing expenses are mainly comprised of: (1) commissions to the Group's reps' and Marketing Personnel, which are calculated as a portion of sales (It is noted that not all the sales are subject to reps' commissions) and of (2) other selling expenses (fixed) based on management policy. The Group's marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network. The Group's selling & marketing expenses for the year ended December 31, 2019 amounted to USD 2,061 thousand (5%) compared with USD 2,261 thousand (5%) in the year ended December 31, 2018.

Operating & financial result

The total operating income before the financial result for 2019 amounts to USD 10,033 thousand compared to USD 13,434 thousand last year.

The Group's Finance income for the year ended December 31, 2019 amounted to USD 605 thousand compared with a finance income of USD 241 thousand in the year ended December 31, 2018.

Profit before income taxes

The profit before income taxes for the financial year 2019 is USD 10,651 thousand compared to a profit of USD 13,699 thousand in 2018.

Income taxes

Tax expenses for the year ended December 31, 2019 amounted to USD 1,884 thousand compared with USD 2,338 thousand for the year ended December 31, 2018. The decrease in tax expenses resulted mainly from the profits decrease.

Net Profit for the year

The total result for financial year 2019 was a profit of USD 8,767 thousand, compared to USD 11,361 thousand in 2018.

Total comprehensive income for the year

Total comprehensive income for financial year 2019 was a profit of USD 8,631 thousand, compared to USD 11,414 thousand in 2018.

Balance sheet – cash position

Cash and cash equivalents and Short-term Deposits - these items amounted to a total of USD 33,841 thousand as at December 31, 2019 compared to USD 30,932 thousand as at December 31, 2018. The Company profitability during year 2019 attributed the increase in its solid cash position, inducing covering back the cash paid out as dividend, at the amount of USD 5,301 thousand, on June, 2019.

Trade accounts receivable - these amounted to USD 7,610 thousand as at December 31, 2019 compared with USD 6,151 thousand as at December 31, 2018. The increase in this item resulted mainly due to increase of Far-East oriented customer balance at the end of 2019. These were collected during the first quarter of 2020.

Trade payables - amounted to USD 2,678 thousand as at December 31, 2019 compared to USD 1,891 thousand as at December 31, 2018. The increase in this item is explained by decrease in advance payment made to two main suppliers and by increase in purchases near the reported date from one of the manufacturing partner (main supplier).

Cash flow statement

Cash flows generated from operating activities - for the year ended December 31, 2019 amounted USD 8,789 thousand, compared with the cash flows generated from operating activities of USD 11,098 thousand for the year ended December 31, 2018. The decrease in the cash flows from operating activities resulted mostly from the decrease in the profit for the year as well as from other non-cash adjustments and changes in assets and liabilities.

Cash flows used for investing activities - in the year ended December 31, 2019 amounted USD 6,138 thousand compared with USD 5,699 thousand in the year ended December 31, 2018. During year 2019 the cash flows were mostly invested in short term bank deposits.

Cash flows used for financing activities - in the year ended December 31, 2019 amounted USD 5,301 thousand compared with cash flows used for financing activities of USD 3,092 thousand in the year ended December 31, 2018. Dividend at the amount of USD 5,301 thousand, USD 0.3 per share, (announced March 27, 2019) was paid in full on June 2019.

Outlook

As at December 31, 2019 the Group's backlog amounted to USD 13,505 thousand, and as of March 8, 2020 to USD 17,490 thousand (December 31, 2018 - USD 16,026 thousand). The backlog is composed of the Company and its two fully owned subsidiaries firm orders. Management estimates that most of the backlog as of 31.12.19 will be supplied until the end of December 2020.

At the end of 2018 and at the beginning of 2019, the Company entered into framework agreements with one of its principle costumers (Customer C) for the supply of magnetic components to three (3) different projects in the electric/hybrid vehicle industry (HEV). The nature of the activity in the automotive industry is characterized by projects with a productive lifespan of about 5 to 7 years.

The engagement was done by means of a Nomination Letter defining the basic terms of the parties' engagement in the project, such as prices (including annual discounts), terms of payment and the annual quantities expected over the projects' life. In addition, the Company and Customer C have signed an agreement that includes general Terms and Conditions of engagement accepted in the industry, which regulate the general commercial relations between the parties (the Nomination Letter and the general terms of engagement are referred to above and hereinafter together as: "**the Framework Agreements**").

As of December 31, 2019 and as of the date of the signing of the financial statements, the Group estimates that only one of those three projects, with predicted orders in the scope of about USD 1.5 million per year, will be executed during the years 2020 to 2024. Regarding the remaining predicted orders according to the Framework Agreements, amounting up to USD 63 million, the Group cannot evaluate whether those predicted orders will materialize and at what time table.

It is noted that the amounts and quantities specified in the Framework Agreements do not constitute as binding orders and the Customer is entitled to cancel, delay or reduce his actual orders, compared with the scope specified in the Framework Agreements, without the Company having any cause of action against him. However, the forecast of quantities included in the Framework Agreements binds the Company to supply such quantities as shall be required.

It is noted that the above statement is a forward-looking statement as defined below.

Subsequent Events

Further to the Company's press release dated February 13, 2020, with regard to the Corona Virus effect the Company is updating that its subcontractors in China are gradually returning to work with increasing output. But, On the other hand, there has been a widespread expansion of the Corona Virus to additional countries in the world, including Israel, the Philippines, the US, etc. This event has macroeconomic implications, expansion of traffic restrictions, restrictions on congregation, transport restrictions, closure of borders between countries and the like, in the world and in Israel, which may naturally lead to a material adverse effect on the Group's operations. The negative impact is reflected both in the production capacity of the Group and its suppliers, in the ability of its customers to continue to work and fulfill their orders and also logistical problems of transport as a result. At this stage, the Group's management cannot evaluate the impact of this epidemic on its activities and financial results.

Revaluation/devaluation of the local currencies, NIS and GBP, in relation to the U.S. Dollar leads to an increase/decrease (respectively) in labor costs and other operating costs. Most of the Group's salaries and other operating costs are fixed in local currencies; therefore, the operating results are affected. Devaluation of the Euro(€) and Pound(£) in relation to the U.S. Dollar leads to a decrease in Group's assets in those currencies.

It should be clarified that the Company's assessments above are forward looking information, and it is clarified that the actual results may differ materially from the implications of this information.

Independent Auditors' Report – 25 March 2020

The selected consolidated financial data are derived from the Audited Financial Statement of the Company as of and for each of the years in the two years period ended December 31.

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB") and the requirements of Israeli law.

The results have been audited by Somekh Chaikin, Certified Public Accountants, a member firm of KPMG International. The conclusion of the auditor is as follows: *"In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS)".*

Statement by senior management in accordance with Royal Decree of 14 November 2007

Pursuant to article 13 § 2,3 of the Royal Decree of 14 November 2007, David Yativ Chairman of the Board of Directors declares, on behalf of and for the account of Payton Planar Magnetics that, as far as is known to him,

- a) the financial statements at 31 December 2019 are drawn up in accordance with IFRS-reporting as adopted by the European Union and present a true and fair view of the equity, financial situation and results of the company
- b) the report gives a true and fair view of the main events of the financial year, their impact on the financial statements, the main risk factors and uncertainties, as well as the main transactions with related parties and their possible impact on the financial statements.

The complete audited financial statements and the annual report are available for downloading in the investors section of www.paytongroup.com

Key financial figures – Payton Planar Magnetics Ltd.

Consolidated Statements of Profit or Loss and Other Comprehensive Income for the year ended December 31

- Audited -	2019 \$ thousands	2018 \$ thousands
Revenues	38,425	45,623
Cost of sales	(21,585)	(25,192)
Gross profit	16,840	20,431
Development costs	(1,299)	(1,335)
Selling and marketing expenses	(2,061)	(2,261)
General and administrative expenses	(3,432)	(3,403)
Other income (expenses), net	(15)	2
Operating profit	10,033	13,434
Finance income	811	392
Finance expenses	(206)	(151)
Finance income, net	605	241
Share of profits of equity accounted investee	13	24
Profit before income taxes	10,651	13,699
Income taxes	(1,884)	(2,338)
Profit for the year	8,767	11,361
Other comprehensive income (loss) items that will not be transferred to profit and loss		
Remeasurement of defined benefit plan, net of taxes	(133)	62
Share of other comprehensive loss of equity accounted investee	(3)	(9)
Total other comprehensive income (loss)	(136)	53
Total comprehensive income for the year	8,631	11,414
Basic and diluted earnings per share (in \$)	0.50	0.64

Consolidated Statement of Financial Position

- Audited -

	2019 USD 000	2018 USD 000
ASSETS		
Current assets	46,693	42,143
Non-current assets	11,914	12,293
Total assets	58,607	54,436
Liabilities and shareholders' equity		
Current liabilities	5,595	5,013
Non-current liabilities	1,761	1,502
Total equity	51,251	47,921
Total liabilities and shareholders' equity	58,607	54,436

Current Shareholders structure

Shareholder name	# of shares	% outstanding shares	Comments
Payton Industries Ltd.	11,694,381	66.2%	Israeli company traded in the Tel Aviv stock exchange.
Public	5,976,394	33.8%	Listed on the Euronext since June 1998
Total	17,670,775	100.0%	Total outstanding shares.

Consolidated Statements of Cash Flows for the year ended December 31

- Audited -

	2019	2018
	<u>\$ thousands</u>	<u>\$ thousands</u>
Operating activities		
Profit for the year	8,767	11,361
Adjustments to reconcile profit to net cash generated from operating activities:		
Depreciation	981	905
Income taxes	1,884	2,338
Share of profits of equity accounted investee	(13)	(24)
Capital loss (gain) on sale of fixed assets	15	(2)
Finance income, net	(701)	(350)
Increase (decrease) in employee benefits	120	(117)
(Increase) decrease in trade accounts receivable	(1,459)	394
Decrease (increase) in other accounts receivable	44	(773)
Increase in inventory	(228)	(84)
Increase (decrease) in trade payables	778	(1,202)
Increase in other payables	37	204
Interest received	723	379
Interest paid	(41)	(24)
Tax paid	(2,118)	(1,907)
Cash flows generated from operating activities	<u>8,789</u>	<u>11,098</u>
Investing activities		
Investment in deposits, net	(5,540)	(4,182)
Acquisition of equity accounted investee	-	(1,000)
Investment in fixed assets	(629)	(527)
Proceeds from sale of fixed assets	31	10
Cash flows used for investing activities	<u>(6,138)</u>	<u>(5,699)</u>
Financing activities		
Dividend paid	(5,301)	(3,092)
Cash flows used for financing activities	<u>(5,301)</u>	<u>(3,092)</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,650)</u>	<u>2,307</u>
Cash and cash equivalents at beginning of the year	<u>7,366</u>	<u>5,089</u>
Effect of exchange rate fluctuations on cash and cash equivalents	<u>25</u>	<u>(30)</u>
Cash and cash equivalents at end of the year	<u><u>4,741</u></u>	<u><u>7,366</u></u>

Note - forward-looking statements:

*This document contains certain **forward-looking statements** and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events. Management emphasize that the assumptions do not in any way imply commitment towards realization. The outcome of which is subject to certain risks and other factors which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.*

Reference in this document to forward looking statement shall be by stating that such information is given by way of estimation, evaluation, assessment, intentions, expectations, beliefs and similar terms, but it is possible that such information shall be given under other phrases.

About us

Payton Planar Magnetics Ltd., an Israeli-based high-tech company, designs, manufactures and markets Planetics[®], its customized line of planar transformers, conventional transformers and inductors to Original Equipment Manufacturers and their suppliers of power electronics. The group currently employs about 183 people (including executive officers). Planar Magnetic Components are used in end products in various industries, including telecommunications, automotive, cellular infrastructure, Military/Avionics, portable equipment and consumer goods. Planar Magnetics is a revolutionary design technology that is superior to conventional transformers and inductors, and has already been accepted by electronics design engineers as the state-of-the-art in high frequency power electronics design. Payton Planar Magnetics is a subsidiary of Payton Industries, headquartered in Israel, and has manufacturing and marketing operations in Israel, U.K. and United States. Payton Planar Magnetics is publicly traded on the Euronext stock exchange in Brussels (ticker: PAY).

For more information, please visit Payton's web site at www.paytongroup.com
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