

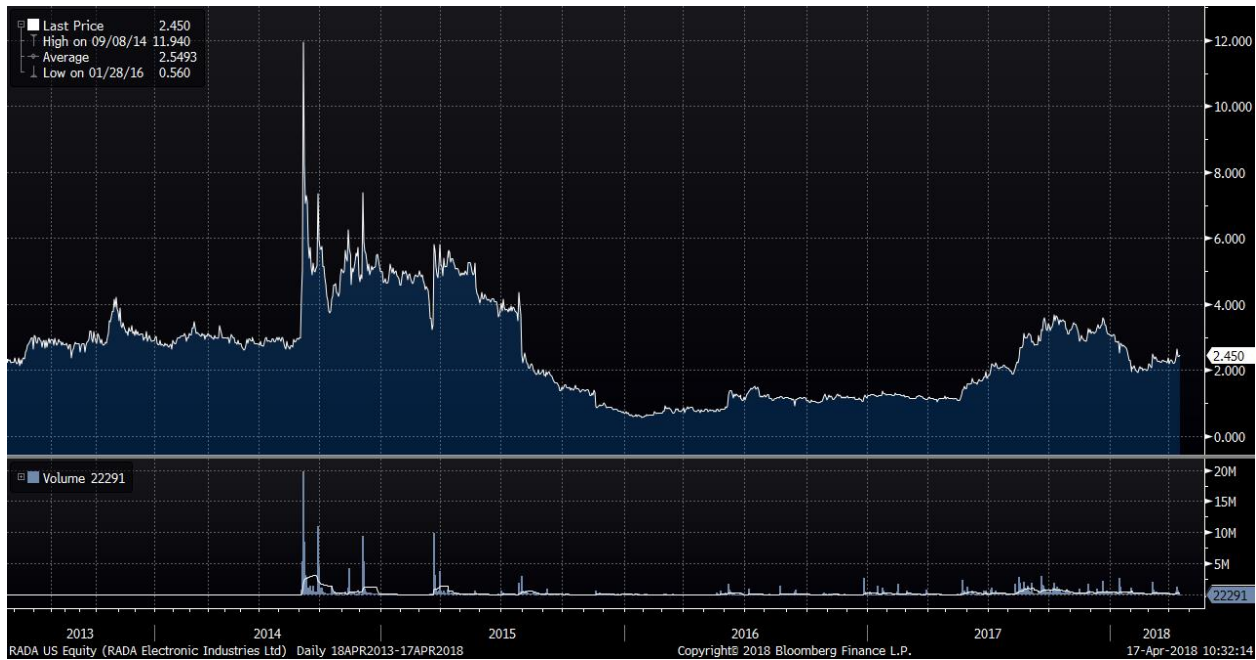


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RADA Electronic Industries Ltd

Ticker: RADA



Company Overview

RADA Electronic Industries Ltd is a defense electronics system company specializing in the design, development, production and sales of advanced electronic systems for airborne and land applications. RADA provides complete system solutions designed primarily for the aerospace and defense market. RADA is an Israeli based defense firm specializing in the development and production of software defined, AESA Tactical Land Radars for Force and Border Protection and Avionics Systems for fighter aircrafts and UAV's.

Company Offerings

See appendix for a full explanation of the company's products



Industry Information

The United States military comprises by far, the largest market for defense equipment, systems, and services in the world. The companies included in this sector not only serve America's needs, but also often are the suppliers most sought by our allies and friends. Aside from political reasons for using U.S. suppliers, American manufacturers, serving the huge domestic defense market, tend to be leaders in the technical aspects of weapons systems.

As the world's geopolitical risks continue to rise, compounded by rising tensions in Syria, threat of war with North Korea, and the Trump administration's appointment of John Bolton, the need for defense spending and development provides a strong growth opportunity for the industry.

The past weeks rising tensions in Middle East display a clear need for short range missile defense systems. Defense contractors and their suppliers' prospects are largely dependent on their countries defense budgets. The United States recently increased their defense budget to slightly below \$700 billion as they prioritize their efforts to modernize their forces. The Trump Administration has prioritized defense spending and will seek to continue to raise it in subsequent years; he is currently seeking a budget of \$719 Billion for 2019.

Significant Investors

| <u>Name</u> | <u>Ordinary Shares Beneficially Owned</u> ⁽¹⁾ | <u>Percentage of Ownership</u> ⁽²⁾ |
|----------------------------|--|---|
| DBSI Investments Ltd. | 9,001,634 | 27.37% |
| Howard P.L. Yeung | 1,786,009 | 5.40% |



| | | |
|---|-----------|-------|
| Yelin Lapidot Holdings Management Ltd. | 1,663,942 | 5.55% |
|---|-----------|-------|

In May of 2016, RADA announced the completion of new equity financing with a partnership with DBSI Investments Ltd., an Israeli Investment company. DBSI purchased 8,510,638 newly issued ordinary shares as well as warrants to purchase up to 4,255,319 shares, at an exercise price of \$0.47 per share, exercisable within 24 months following the closing on May 18, 2016, and warrants to purchase up to 3,636,363 shares, at an exercise price of \$0.55 per share exercisable within 48 months following the closing, as well as the right to acquire up to a maximum of 6,755,319 additional ordinary shares pursuant to the conversion by DBSI of a convertible loan in the amount of \$3,175,000. These holdings amounted to a 67.4% ownership of the company. Managing Partner of DBSI, Yossi Ben Shalom, has assumed the role of Chairman of the board and has supported current Chief Executive Officer Dov Sella in his mission to develop a strong US market. In August of 2017, RADA announced the sale of over 4,000,000 ordinary shares to Israeli institutional investors, raising 10 Million of equity and an additional 2 million in warrants from DBSI in order to fund the creation of RADA Technologies LLC as well as build short-term inventories for recently delivered contracts.

Howard Yeung reported in April 2015, that he had purchased over 1.5 million outstanding shares in RADA, representing over 34% of all outstanding shares. Mr. Yeung has acted as a passive investor and since his initial purchase, has either sold or had his shares diluted to its current level of 5.4% of outstanding shares. Yelin Lapidot Holdings Management LTD, is a holding company owned by Mr. Dov Yelin and Mr. Yair Lapidot, two Israeli Private



investors. The investors first purchased their shares in October of 2015, and have remained control of approximately 5% for the last three years, taking a passive role in the company.

Significant Partnerships

As part of the company's growth strategy, RADA has established a number of significant partnerships and relationships with leading global defense contractors and nation's Air Forces.

Lockheed Martin. Lockheed Martin is the manufacturer of the F-16 aircraft, one of the most popular fighter aircraft in the western world today. RADA is supplying the DVDR, HD-DVDR and GDS for new F16 aircraft production and for F-16 upgrade programs led by Lockheed Martin. In 2015, Lockheed Martin ordered a single radar system for integration in their internally funded high energy laser research and development program. In October of 2017, their Multi-mission Hemispheric Radar was used by Lockheed Martin in their successful testing of the ATHENA High-Energy Laser, a weapon in development that can deliver lethality against unmanned aerial vehicle systems.

Boeing Defense, Space and Security. Boeing, a provider of air defense and high-energy laser systems, acquired our MHR in 2013 for evaluation of its use as part its directed energy tactical systems, and in 2017 has acquired the ieMHR to be integrated into critical infrastructure surveillance solutions. They also provide Boeing with recorders and debriefing stations for the T-45 VMTS, and have received follow-on orders from Boeing.

Leonardo DRS. DRS is a major player in the defense electronics market in North America, with a focus on tactical systems and radars. In 2017, they signed a cooperation agreement with DRS to market and sell their tactical radars in the North American market for counter-UAV, short-range air defense, and other solutions. DRS has acquired a few MHR radars and is actively promoting it as part of their system solutions.



SAZE Technologies LLC. SAZE is the first customer and user of our MHR radars, and provided support and market access to various radar programs and demonstrations that we were involved with. RADA and SAZE established a joint venture company, or JV, in the U.S., RADA Technologies LLC., that will seek special security agreements and will perform market development, localization of the technology, customer support, production and maintenance. We are in the process of recruiting personnel for the JV.

European Air Defense Integrators. Two major European air defense integrators have purchased radars for integration and testing. We have signed a value-added representation agreement with one of the integrators for certain countries where it has a dominant position in sales of air defense and other solutions.

They are the sole providers of digital recorders and debriefing solutions to an air force in Latin America. We are the primary provider of recorders and debriefing solutions to a major Asian air force. Their tactical radars for air defense are under evaluation by a Far-East country's army that has acquired a few units, while two other Asian forces have purchased radars for air surveillance and countermortar applications. Their tactical radars are used by the U.S. Navy and Marines as part of their ground based air defense advanced technology development program. They believe that these strategic relationships with military forces provide the company with the potential for prolonged cooperation.

Israel Aerospace Industries. They actively supply avionics and test equipment to four different divisions of IAI, and in particular, to the LAHAV and MALAT divisions, who are major aircraft integrators and utilize our products and services for repeated follow-on orders.

Investment Thesis

Strong Q1 Guidance: After announcing the company's most successful full year results in over two decades, RADA CEO Dov Sella gave strong guidance as the company holds its



momentum from the past year. After posting YoY revenue growth of 104% in 2017, Sella predicted Q1 revenue of 6 million dollars, a 30% increase in revenue over Q1'17.

US Market Growth: On their full year earnings call, CEO Dov Sella stated that for the next few years the United States will be their largest target market and growth driver. On March 26th, RADA Electronic LTD announced the creation of their US subsidiary RADA Technologies LLC. RADA's US JV will work to adapt RADA's tactical radar technology specifically for the US market towards requirements solely held by US customers. Currently RADA is working to achieve a Special Security Agreement with the US Defense Security Service by the end of 2018. This initiative will pave the way for future contracts with the US military. In Q4'17, RADA delivered their first order to an unnamed US military division, actually supplying their radar technology in record time.

US Military Modernization: In October 2017, during the AUSA Conference U.S. Army Conference that took place in Washington, The U.S. Army's Chief of Staff General, Mark Milley issued a guidance on the modernization priorities of the U.S. Army. Gen. Milley presented six strategic and operational priorities that the US military will seek to develop in the next few years. The military has concluded that the world is about to enter a new age of warfare, as adversaries across the globe become more advanced. Our nation must take the necessary steps to retain our competitive advantage and remain the most dominant military force in the world. RADA electronics has developed new technologies that have the potential to service these needs; specifically in two areas in which I would like to touch on;

Short Range Air Defense: General Milley laid out the need for greater Air and Missile defense systems to protect combat formations as enemies develop new technologies, specifically with the proliferation of UAV warfare. RADA's revolutionary radar technologies have the capabilities will specially be able to service their counter UAV needs. RADA believes that their technologies are finally on the verge of market acceptance and resulting growth as these needs are addressed.



Active Protection: One of the six development priorities laid out by Army Chief of Staff Mark Milley is the need for active protection for vehicle crews at home and abroad. RADA's tactical radar offerings are actually the only program currently on the market that hold the same full range of technical capabilities that are offered. Currently, the US Military is in the process of testing new active protection capabilities for their forces. The company values this tactical radar market at approximately \$5 billion, a market which they are poised to capture with a strong comparative advantage over its competitors.



Review of Financial Documents



| | Year Ended December 31, | | |
|--|-------------------------|---------|-------|
| | 2015 | 2016 | 2017 |
| Revenues | 100% | 100% | 100% |
| Cost of revenues | 82.9% | 88.7% | 68.4% |
| Gross profit | 17.1% | 11.3% | 31.6% |
| Research and development, net | 4.9% | 5.9% | 6.0% |
| Marketing and selling | 16.7% | 17.7% | 8.2% |
| General and administrative | 14.9% | 14.1% | 9.8% |
| Operating income (loss) | (19.5%) | (26.5%) | 7.6% |
| Financial expenses, net | (25.4%) | (11.9%) | 0.6% |
| Net income (loss) from continuing operations | (44.9%) | (38.4%) | 7.0% |
| Net income (loss) from discontinued operations | (1.3%) | 0.1% | 1.9% |
| Net income (loss) | (46.2%) | (38.3%) | 8.9% |
| Net income (loss) attributable to non-controlling interest | (0.2%) | 0.0% | 0.3% |

Revenues: Revenues increased by 104% to \$26.2 million in 2017 from \$12.8 million in 2016 mainly due to the increase in radars business revenues. The company completed an order for a strategic US military force that added \$9 million in revenue for the full year. The radar business segment grew by over 300% compared to 2016, which led to almost all of the company's growth in 2017. The radar business was 60% of revenue in 2017, with their legacy avionics line providing 40% of revenue. The company stated that they had a strong backlog for Avionics orders going into 2018, and expect the business to provide strong cash flow to allow for their development of radar technology. The company expects Q1'18 revenue to be approximately \$6 million, or a 30% YoY increase from 2017 levels. Below is a breakdown of RADA's revenue by geographic region:



| | 2015 | 2016 | 2017 |
|-------------------------------|------|------|------|
| Israel | 43% | 57% | 24% |
| South and Latin America | 11% | 10% | 2% |
| Asia | 20% | 19% | 17% |
| North America | 25% | 13% | 55% |
| Europe | 1% | 1% | 1% |
| Australia | - | - | 1% |

Gross Profit: The Company posted gross profit of \$8.3 million, an increase of 473% YoY. The huge increase in gross profit can be explained by the significant increase in revenue along with especially the higher margins that come from their radar business. The company expects Q1 gross profit to again be over 30% as their radar business continues to drive growth in the United States.

Research and Development: The Company increased R&D expenditures by over 100% in 2017, raising the total to \$1.6 million for 2017. The company will continue to develop and strengthen their superior technology compared to their competitors in 2018 and the years to come. With the establishment of their US subsidiary, the company expects to increase R&D in 2018 as they develop their radar technology specifically for US customers.

Corporate Tax Rate: Companies based out of Israel will have a 23% corporate tax rate for the year 2018. However, RADA maintains net operating loss carry forward for Israeli tax purposes of \$73 million, giving the company an effective of tax rate of 0% until such carryforwards are exhausted. Additionally, the company expects to receive tax benefits from their US subsidiary with the passage of the Trump Administrations tax cuts, lowering the corporate tax rate to 21%.



Cash Flows

| | Year ended December 31, | | |
|--|-----------------------------|---------|---------|
| | 2015 | 2016 | 2017 |
| | (U.S. dollars in thousands) | | |
| Net cash provided by (used in) operating activities from continuing operations | (3,018) | (4,919) | 1,722 |
| Net cash used in investing activities from continuing operations | (370) | (44) | (1,811) |
| Net cash provided by financing activities from continuing operations | 3,227 | 5,442 | 11,292 |
| Net cash provided by (used in) operating activities from discontinued operations | 253 | 298 | (644) |
| Net cash used in investing activities from discontinued operations | (8) | (34) | (101) |
| Effect of exchange rate changes on cash and cash equivalents | (116) | (133) | (138) |
| Increase (decrease) in cash and cash equivalents | (32) | 610 | 10,320 |
| Cash and cash equivalents at beginning of the year | 1,786 | 1,754 | 2,364 |
| Cash and cash equivalents at end of the year | 1,754 | 2,364 | 12,684 |
| Less cash and cash equivalents of discontinued operation at the end of the year | 1,020 | 1,159 | 267 |
| Continuing Operations | 734 | 1,205 | 12,417 |

Cash and cash equivalent at the end of 2017 was \$12.4 million, compared to \$1.2 million at year-end 2016. The growth in cash was due in part to our positive cash flow from operating activities, as well as \$10 million offering the company undertook in August 2017, as well as the exercise of warrants by DBSI has bought us some employees, which brought another \$2 million into the company. Shareholders' equity increased to \$29.2 million at the end of 2017 versus \$11 million at the end of 2016.

