



Matrix announces the results of the second quarter of 2017

Revenues increased by about 12% to approximately NIS 1.36B; operating profit increased by about 6% to approximately NIS 89.6M, and revenues in the US rose by 28%

Revenues of Matrix in the second quarter grew by about 14%, to approximately NIS 668.5M. Operating profit increased by about 1.7%, to approximately NIS 41M.

During the quarter, Matrix reported two major deals: the establishment of a credit information database for the Bank of Israel in the amount of NIS 133M, and the winning of a \$25M project for the development of cyber protection solutions for a foreign country.

Today Matrix publishes the results for the second quarter of 2017, reflecting the growth of the company in all financial indicators: revenues, gross profit, operating profit, and net profit—both in the second quarter and in the first half of 2017.

Revenues, operating profit, and net profit

In the second quarter of 2017, Matrix revenues grew by about 14.1% and reached approximately NIS 668.5M, compared with NIS 585.7M in the corresponding quarter last year. Operating profit increased by about 1.7% and reached approximately NIS 4M, compared with NIS 40.3M in the corresponding quarter last year. Net profit grew by about 3.2%, to approximately NIS 24.3M, compared with approximately NIS 23.5M in the corresponding quarter last year.

Matrix's revenues in the first half of the year (the period) of 2017 increased by about 12%, to approximately NIS 1.36B, compared with approximately NIS 1.22B in the corresponding period of the previous year. Operating profit for the period amounted to approximately NIS 89.6M, compared with approximately NIS 84.5M in the corresponding period of the previous year, an increase of about 6%. Net profit for the period amounted to approximately NIS 52.6M, compared with approximately NIS 50.6M in the corresponding period of the previous year, an increase of about 4%.

Matrix continues to show growth despite the busy holiday season in the second quarter of the year, which included Passover, Independence Day, and Shavuot. Matrix, with a portion of its revenues directly affected by the number of work days in the period, still shows growth in all the indicators (as detailed above), despite the fact that in the second quarter of 2017 there were approximately 5% fewer work days than in the corresponding quarter last year, and about 2.4%



fewer work days in the first half of 2017, compared with the corresponding period of the previous year.

Matrix continues its policy of distributing dividends once a quarter at a rate of up to 75% of the annual net profit. Since the beginning of the year, Matrix has distributed dividends in the total amount of approximately NIS 45.1M. With the publication of the reports for the second quarter, Matrix announced an additional distribution of dividends in the amount of NIS 17.2M.

Moti Gutman, Matrix CEO: "We have concluded a challenging quarter in which we managed to achieve growth in all indices, both in the quarter and in the first six months of the year. During the first six months of the year, all five sectors of activity recorded an increase in operating profit. Even in sectors where revenue declined, profit continued to grow thanks to our focus on growing and profitable fields, and our systematic exit from areas of low profitability."

Gutman added: "Having recently won several large projects, in the second quarter of 2017 we reported winning two substantial strategic tenders in the fields of finance and cyber, which reflect the confidence of the market in our ability to execute massive strategic projects. Matrix won a large strategic deal for the establishment, operation, and maintenance of the credit information database of the Bank of Israel, in the amount of approximately NIS 133M for the construction phase, and approximately NIS 38M per year in the operation and maintenance phase. In addition, Matrix concluded a large agreement for a project to develop advanced solutions in the field of cyber for a foreign country. The scope of the agreement is estimated at more than \$25M for a project expected to last for about 3 years. Matrix will continue to compete for large strategic projects both in Israel and abroad. We have a range of solutions appropriate for the fields that are currently most in demand. We also have the necessary financial backing, thousands of experts, and the experience and knowledge required for such projects, which by their very nature demand a wide range of capabilities that are available at Matrix."

"The research and analyst companies, such as STKI and IDC, continue to rank Matrix as the leader in the value-added services market in the IT field. In addition to naming the company as the leader of the entire IT market, STKI rated Matrix as Tier 1 in 36 IT areas of activity, and in 20 of these categories it was rated the best. In February 2017, the rating company Midroog confirmed the Aa3.il issuer rating of Matrix, with a stable outlook, a ranking that has been maintained for 10 consecutive years, and is the highest for companies in the field of software services."

"Matrix deploys a CTO team responsible for early identification of trends and areas of interests to our customers, with the aim of entering these areas by establishing new activities and/or mergers and acquisitions. We succeeded in doing this in areas such as the cloud, cyber, fintech, analytics, big data, mobile, and others. Today we are entering additional growing areas in the field of IOT, smart cities, AI, machine learning, and more. We are proud that Matrix is successfully operating



in the new technological fields and that our employees are engaged in large, interesting, and strategic projects involving the most innovative technologies. "



Summary of reports on consolidated profit for the three months and six months ending on June 30, 2017 and 2016 (in NIS millions)

	For three months ending on		Change in %	For six months ending on		Change in %
	30.06.17	30.06.16		30.06.17	30.06.16	
Turnover	668,549	585,744	14.1%+	1,365,216	1,219,087	+12%
Cost of sales and services	573,345	494,420		1,167,968	1,032,084	
Gross profit	95,204	91,324	4.2%+	197,248	187,003	+5.5%
% of sales	14.2%	15.6%		14.5%	15.3%	
Sales and marketing expenses	22,210	19,486		44,276	39,777	
Management and general expenses	31,983	31,523		63,377	62,715	
Operating profit	41,011	40,315	1.7%+	89,595	84,511	+6%
% of sales	6.1%	6.9%		6.6%	6.9%	
Financing costs	8,285	6,295		17,017	11,092	
Financing gains	(227)	783		(581)	308	
The Company's share in the profits (losses) of affiliated companies	5	0		(27)	0	
Profit before taxes	32,504	34,803		71,970	73,727	
Taxes on income	8,179	11,222		19,393	23,174	
Net profit	24,325	23,581	3.2%+	52,577	50,553	+4%
Net profit attributed to:						
Shareholders	22,786	23,272		50,850	50,232	
Minority rights	1,539	309		1,727	321	
Net profit	24,325	23,581	+3.2%	52,577	50,553	+4%
EBITDA	46,789	46,007	1.6%+	102,227	95,939	+6.5%
%	7%	7.9%		7.5%	7.9%	

Analysis of sectors of activity

Software solutions and services in Israel

Total revenues in the software solutions and services sector in Israel amounted to approximately NIS 427M in the second quarter of 2017, representing about 61.6% of revenues, compared with approximately NIS 377.1M in the corresponding quarter of the previous year, an increase of about 13.2%. Revenues from the software solutions and services sector in the first six months of the year amounted to approximately NIS 884.7M, or about 62.3% of revenues, compared to approximately NIS 772.7M in the corresponding period last year, an increase of about 14.5%.



Operating profit from the software solutions and services sector in Israel in the second quarter amounted to approximately NIS 17.8M, representing about 4.2% of the sector revenues, compared with approximately NIS 18.3M in the corresponding quarter last year. Operating profit from software solutions and services sector in Israel during the period reached approximately NIS 42.9M, representing about 4.9% of revenues from the sector, compared with approximately NIS 39.6M for the corresponding period of the previous year.

The increase in revenues and profit during the period, despite erosion in the profit rate, stems from an increase of activity and from the initial integration of the Aviv consulting firm, offset by the effect of the holidays in the second quarter and by the increase in the wages of software professionals in Israel.

Software solutions and services in the US

In the second quarter of 2017, total revenues from the software solutions and services sector in the US amounted to approximately \$22.8M, representing about 11.8% of revenues, compared with approximately \$17.8M in the corresponding quarter of the previous year, an increase of about 28.1%, after accounting for the effect of the dollar exchange rate.

Revenues from software the solutions and services sector in the US for the period amounted to approximately \$44.8M, representing about 11.5% of revenues, compared with approximately \$35.4M in the corresponding period of the last year, an increase of about 26.6%, after accounting for the effect of the dollar exchange rate.

Operating profit from the software solutions and services sector in the US in the second quarter amounted to approximately \$2.4M, representing about 10.7% of revenues from the sector, compared with approximately \$2.2M in the corresponding quarter of the previous year, an increase of about 9.1%, after accounting for the effect of the dollar exchange rate. Operating profit from the software solutions and services sector in the US for the period amounted to approximately \$5.7M, representing about 12.7% of revenues from the sector, compared with approximately \$5.2M in the corresponding period of the last year, an increase of about 9.6% after accounting for the effect of the dollar exchange rate.

The increase in revenues and profit follows from an increase in activity and from the initial consolidation of the reports of NIT, offset by the erosion in the rate of profit due to an increase in wages of software personnel in the US.

Marketing and support of software products

Total revenues from the marketing and support of software products sector in the second quarter of 2017 amounted to approximately NIS 37.9M, representing about 5.4% of revenues, compared with approximately NIS 29.8M in the corresponding quarter of the previous year, an increase of about 27.2%. Revenues from the marketing and support of software products sector during the period amounted to approximately NIS 68.6M,



representing about 4.8% of revenues, compared with NIS 72.8M in the corresponding period of last year, a decrease of about 5.8%.

Operating profit in the marketing and support of software products for the quarter amounted to approximately NIS 5.7M, representing about 15.2% of sector revenues, compared with NIS 5.3M in the corresponding quarter last year. Operating profit for the period amounted to approximately NIS 9M, representing about 13.1% of sector revenues, compared with approximately NIS 8.6M in the corresponding period of the previous year. The decrease in revenues for the period, in parallel with an increase in profit and the profit margin, is due mainly to exiting from areas of activity with low profit margins.

Integration solutions and IT infrastructures sector

Revenues from the integration solutions and IT infrastructure sector in the second quarter of 2017 amounted to NIS 105.5M, representing about 15.2% of revenues, compared with about approximately NIS 85.3M in the corresponding quarter of the previous year, an increase of about 23.8%. Revenues from the integration solutions and IT infrastructure sector for the period amounted to approximately NIS 221.2M, representing about 15.6% of revenues, compared with approximately NIS 184.7M in the corresponding period last year, an increase of about 19.7%.

Operating profit in the integration solutions and IT infrastructure sector in the second quarter amounted to approximately NIS 4.2M, representing about 4% of revenues for the sector, compared with approximately NIS 4.3M in the corresponding quarter of the previous year. Operating profit for the period amounted to approximately NIS 8.9M, representing about 4% of the sector revenues, compared with approximately NIS 8.5M in the corresponding period last year.

The increase in revenues and operating profit for the period stems from an increase in activity, especially in the area of cloud solutions.

Training and deployment sector

Revenues from the training and deployment sector in the second quarter of 2017 amounted to approximately NIS 41.3M, representing about 6% of revenues, compared with NIS 42.9M in the corresponding quarter of the previous year. Revenues in the training and deployment sector for the period amounted to approximately NIS 82.1M, representing about 5.8% of total revenues, compared with approximately NIS 82.8M in the corresponding period last year.

Operating profit in the training and deployment sector in the quarter reached approximately NIS 4.5M, representing about 10.8% of sector revenues, compared with a profit of approximately NIS 4M in the corresponding quarter of the previous year, an increase of about 11.2%. Operating profit in the training and deployment sector for the period amounted to a total of approximately NIS 8.2M, representing about 9.9% of sector revenues,



compared with approximately NIS 7.6M in the corresponding period last year, an increase of about 7.3%.

The increase in profit and in operating profit margin derives mainly from the focus on activities with high profit margins.

Cash flow, cash balances, and financial ratios

As of June 30, 2017, cash and financial assets amounted to approximately NIS 227.1M. Positive cash flow from operating activities amounted to approximately NIS 63.1M for the period. The total capital is approximately NIS 620.9M.

About Matrix

Matrix carries out some of the largest integration projects in the industry. It designs and develops innovative technologies and enterprise applications for the Internet and mobile environments, as well as for legacy systems. It represents software solutions and products, local infrastructure solutions, and cloud solutions. It provides outsourcing and offshore services, and engages in software testing, training, and deployment. Matrix employs approximately 8,250 IT professionals. For more than a decade, it has been ranked by research companies as the leader in the field of software and technology services in Israel. Matrix is traded on the Tel-Aviv Stock Exchange and is part of the TA100 index. Company sales in 2016 reached NIS 2.544B, and net profit reached NIS 114M.