

Ituran Location & Control Ltd.
Form 20-F
April 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

Commission file no. 001-32618
ITURAN LOCATION AND CONTROL LTD.
(Exact name of Registrant as specified in its charter and
translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

3 Hashikma Street, Azour, Israel
(Address of principal executive offices)

Eli Kamer, Chief Financial Officer, 3 Hashikma Street, Azour, Israel, Tel: 972-3-5571314, Facsimile: 972-3-5571327
(Name, Telephone, E-mail and/or Facsimile number and Address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value NIS 0.33 ¹ / ₃ per share	Nasdaq Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report:

23,475,431 Ordinary Shares

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes ☐ No ☐

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes ☐ No ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If you are an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†]The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant had used to prepare the financial statements included in this filing:

U.S. GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No

[APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes o No

TABLE OF CONTENTS

<u>USE OF CERTAIN TERMS</u>	IV
<u>FORWARD LOOKING STATEMENTS</u>	IV
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
<u>ITEM 3. KEY INFORMATION</u>	1
A. SELECTED FINANCIAL DATA	1
B. CAPITALIZATION AND INDEBTEDNESS	4
C. REASONS FOR THE OFFER AND USE OF PROCEEDS	4
D. RISK FACTORS	4
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	14
A. HISTORY AND DEVELOPMENT OF THE COMPANY	14
B. BUSINESS OVERVIEW	16
C. ORGANIZATIONAL STRUCTURE	28
D. PROPERTY, PLANTS AND EQUIPMENT	29
<u>ITEM 4.A. UNRESOLVED STAFF COMMENTS</u>	30
<u>ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	30
A. OPERATING RESULTS	30
B. LIQUIDITY AND CAPITAL RESOURCES	41
C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES	44
D. TREND INFORMATION	44
E. OFF-BALANCE SHEET ARRANGEMENTS	44
F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS	45
G. SAFE HARBOR	45

<u>ITEM 6.</u>	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	46
A.	DIRECTORS AND SENIOR MANAGEMENT	46
B.	COMPENSATION	50
C.	BOARD PRACTICES	53
D.	EMPLOYEES	57
E.	SHARE OWNERSHIP	60
<u>ITEM 7.</u>	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	61
A.	MAJOR SHAREHOLDERS	61
B.	RELATED PARTY TRANSACTIONS	63
C.	INTERESTS OF EXPERTS AND COUNSEL	68
<u>ITEM 8.</u>	<u>FINANCIAL INFORMATION</u>	68
A.	CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION	68
B.	SIGNIFICANT CHANGES	71
<u>ITEM 9.</u>	<u>THE OFFER AND LISTING</u>	71
A.	OFFER AND LISTING DETAILS	71
B.	PLAN OF DISTRIBUTION	72
C.	MARKETS	72
D.	SELLING SHAREHOLDERS	72
E.	DILUTION	72
F.	EXPENSES OF THE ISSUE	72
<u>ITEM 10.</u>	<u>ADDITIONAL INFORMATION</u>	72
A.	SHARE CAPITAL	72
B.	MEMORANDUM AND ARTICLES OF ASSOCIATION	72
C.	MATERIAL CONTRACTS	81
D.	EXCHANGE CONTROLS	81
E.	TAXATION	81

F.	DIVIDENDS AND PAYING AGENTS	90
G.	STATEMENT BY EXPERTS	90
H.	DOCUMENTS ON DISPLAY	90
I.	SUBSIDIARY INFORMATION	91
ITEM 11.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	91
ITEM 12.	<u>DESCRIPTIONS OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	92
ITEM 13.	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	92
ITEM 14.A	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	92
ITEM 15.	<u>CONTROLS AND PROCEDURES</u>	92
ITEM 16.	<u>[RESERVED]</u>	93
ITEM 16A.	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	93
ITEM 16B.	<u>CODE OF ETHICS</u>	93
ITEM 16C.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	93
ITEM 16D.	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	99
ITEM 16E.	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	99
ITEM 16F.	<u>CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	99
ITEM 16G.	<u>CORPORATE GOVERNANCE</u>	99
ITEM 16H.	<u>MINE SAFETY DISCLOSURE</u>	99
ITEM 17.	<u>FINANCIAL STATEMENTS</u>	99
ITEM 18.	<u>FINANCIAL STATEMENTS</u>	100
ITEM 19.	<u>EXHIBITS</u>	100

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected consolidated financial data below is provided under generally accepted accounting principles in the U.S. (U.S. GAAP). You should read the selected consolidated financial data presented in this Item together with Item 5 – Operating and Financial Review and Prospects and with our consolidated financial statements included elsewhere in this annual report.

Our selected consolidated statements of income data for the years ended December 31, 2015, 2016 and 2017, and our selected consolidated balance sheet data as of December 31, 2016 and 2017 have been derived from our consolidated financial statements included elsewhere in this report. The selected consolidated statements of income data for each of the years ended December 31, 2013 and 2014, and the selected consolidated balance sheet data as of December 31, 2013, 2014 and 2015, are derived from our audited consolidated financial statements not included in this report.

Consolidated Balance Sheets Data

Year Ended December 31,
2017 2016 2015 2014 2013
In USD
In thousands, except per share amounts

Cash & Cash Equivalent; deposit in escrow (short and long term) and investment in trading marketable securities	40,465	31,485	29,051	40,780	46,679
Working Capital	71,360	55,062	50,124	56,910	57,259
Total Assets	215,159	178,019	142,003	152,337	160,542
Total Liabilities	81,930	69,848	54,182	57,754	65,057
Retained Earnings	92,065	71,717	57,739	49,067	38,831
Stockholders Equity	125,790	102,229	83,698	90,696	90,918
Dividend declared per share	1.12	0.86	0.78	0.98	0.81

Other Data:

	Year Ended December 31,									
	2017		2016		2015		2014		2013	
Subscribers of location-based services ⁽¹⁾	1,160,000		1,057,000		948,000		817,000		741,000	
Average monthly churn rate	3.2	%	3.1	%	3.3	%	3	%	2.9	%

⁽¹⁾ number of subscribers are rounded to the nearest thousand.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Our business, operating results and financial condition could be seriously harmed due to any of the following risks, among others. If we do not successfully address the risks to which we are subject, we could experience a material adverse effect on our business, results of operations and financial condition and our share price may decline, which may result in a loss of all or part of your investment. We cannot assure you that we will successfully address any of these risks. You should carefully consider the following factors as well as the other information contained and incorporated by reference in this annual report before taking any investment decision with respect to our securities. See “Forward Looking Statements” on page iv above.

RISKS RELATED TO OUR BUSINESS

Failure to maintain our existing relationships or establish new relationships with insurance companies could adversely affect our revenues and growth potential.

Revenues from our stolen vehicle recovery services, which we refer to as SVR services, and automatic vehicle location products, which we refer to as AVL products, are primarily dependent on our relationships with insurance companies. In Israel, insurance companies drive demand for our SVR services and AVL products by encouraging and, in some cases, requiring customers to subscribe to vehicle location services and purchase vehicle location products such as ours. In Brazil and Argentina, insurance companies enter into written agreements to subscribe to our services and purchase or lease our products directly. Our inability to maintain our existing relationships or establish new relationships with insurance companies could adversely affect our revenues and growth potential.

capabilities, including global positioning systems, or GPS (although we also provide services based on GPS/GPRS technology), satellite- or network-based cellular systems and direction-finding homing technologies. Some of these competing services and products, such as certain GPS-based products, are installed in new cars by vehicle manufacturers prior to their initial sale, which effectively precludes us from competing for such subscribers in the SVR market. Furthermore, providers of competing services or products may extend their offerings to the locations in which we operate or new competitors may enter the location-based services market. Our AVL products also compete with less sophisticated theft protection devices such as standard car alarms, immobilizers, steering wheel locks and homing devices, some of which may be significantly cheaper. Some of these competing products have greater brand recognition than our AVL products, including LoJack Corporation in the United States.

some of the governmental licenses for radio frequencies that we currently use may be preempted by third parties. In Israel, our license is designated as a “joint” license, allowing the government to grant third parties a license to use the same frequencies, and in Brazil our license is designated as a “secondary”, non-exclusive license, which allows the government to grant a third party a primary license to use such frequencies, which third-party use could adversely affect, disrupt or curtail our operations. Our inability to maintain necessary governmental licenses and frequency approvals, or third-party use of or interference with the same licenses or frequencies, could result in a significant increase in costs and decline in revenues.

results of operations.

9

policies directed toward Israel or Israeli businesses could have an adverse effect on our ability to grow our business and our results of operations.

We are mainly engaged in the area of location-based services, consisting of stolen vehicle recovery, fleet management services and other tracking services. We also provide wireless communication products used in connection with our location-based services and various other applications. We currently primarily provide our services as well as sell and lease our products in Israel, Brazil, Argentina and the United States.

competitors in Argentina are LoJack Corporation, Megatrans SA., G4S, Sitrac S.A., American Tracer, Ubicar S.A. and Sky Cop. and Prosegur.

which allows us to offer our services to the public.

25

on a straight-line basis over the subscription period.

