

Quarterly Update

October 2, 2017

Safe-T: Private Investment of NIS 22.5M supports positive momentum that is in line with company's strategy. Target price raised to NIS 9.38

Stock Exchange: TASE

Symbol: SAFE

Sector: Technology

Sub-sector: Cybersecurity

Stock price target: NIS 9.38

As of September 28, 2017

(Source: TASE website):

Closing price: NIS 4.6

Market cap: NIS 92.1M

of shares: 20.1M

Stock performance (YTD): -10%

Daily-trading-vol. (12 months): 551.7K

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Company Overview

Safe-T Group Ltd. ("Safe-T"), listed on the Tel Aviv Stock Exchange (TASE: SAFE) since 2016, is a cybersecurity company that was founded in 2013 in Israel. The company develops and markets its High-risk Data Security (HDS™) Solution, which is designed to mitigate attacks on business-critical services and data for a wide range of industries, including financial, healthcare, government, and manufacturing organizations.

Deployed globally, HDS protects thousands of employees in enterprises and governments, securing their data, services, and networks from insider and external data threats. HDS mitigates data threats such as un-authorized access to data, services, and networks, as well as data-related threats that include data exfiltration, leakage, malware, ransomware, and fraud. Headquartered in Israel, Safe-T is active in North America, APAC, Africa, and Europe.

Highlights

Safe-T reported the following main points in their Q2 2017 report.

- **H1 2017 revenues are similar to H1 2016 revenues**, amounting to \$400K.
- **Private investment in the company based on NIS 6 – NIS 7 per share** - During Q2 2017, Safe-T entered into agreements with private investors for an investment totaling NIS 22.5M, in exchange for ordinary shares.
- **Management team strengthened** - A number of senior executives joined the company to strengthen its management and sales infrastructure.
- During August 2017, Safe-T reported several significant events, including that they:
 - received a **letter of intent (LOI) from a security-governmental body to contract with the company as a "single supplier"**
 - **launched their Software Defined Perimeter (SDP) solution for securing critical infrastructure.**
- On June 22, 2017, the company **received the required approvals to register their shares as American Depositary Shares (ADS) traded over-the-counter (OTC).**

Analysis

- Following their most recent round of private capital-raising, Safe-T is progressing according to their strategic plan with partnerships and agreements in place to distribute the company's products.
- The company released its first version of Safe-T Software Defined Perimeter (SDP), which is based on their SDA technology. Safe-T SDP is slated to become the their flagship product.
- The company's burn rate for H1 2017 is \$2.1M. We assume that the company's cash will be sufficient at least until mid-2018.
- **Considering their recent private investment, we are raising Safe-T's value to \$52.9M / NIS 188.3M (compared with the previous value of \$48.1M / NIS 169.1M), with a target price range of NIS 8.91 – NIS 9.88, mean of NIS 9.38.**

Following are key data and forecasts:

Year	Revenues (\$K)	EBITDA (\$K)	EPS (\$)
2016A	843	-7,348	(0.8)
2017E	1,368	-5,452	(0.4)
2018E	3,420	-5,494	(0.4)
2019E	8,135	-3,601	(0.3)
2020E	14,645	807	(0.1)

Quarterly Report

Safe-T reported the following main points in their Q2 2017 report.

Private Investment in the Company

During Q2 2017, Safe-T entered into agreements with private investors for an investment totaling NIS 22.5M, in exchange for ordinary shares.

In addition, during the quarter, the company exercised Series 1 and 2 options for a total of approximately NIS 7M. On April 30, 2017, the company's Series 1 options expired.

According to Safe-T's Q2 2017 report, the purpose of this investment is to reorganize and strengthen the company's marketing and sales organization and internal processes. These processes include recruiting new personnel, and training new sales teams in Israel and worldwide, especially in regards to Safe-T's SDP (Software Defined Perimeter), a new product, whose launch is planned for the end of 2017.

Annual Subscription Method

As part of the company's efforts to market and sell its products to additional customers and penetrate new markets, Safe-T is currently focused on selling annual subscriptions, which include: software updates and upgrades; and telephone support services.

The decision to prefer a subscription model over a perpetual model has resulted in lower revenues in the short term, since an annual contract for a period of 1-2 years is priced lower than a perpetual contract for the same amount of time. However, in the long term, usually starting at the third or fourth year, Safe-T will benefit from a subscription model.

During July 2017, the company received four orders from USA-based customers, based on its annual subscription model. In Israel, several companies, including financial companies such as Analyst Investment House and hospitals such as Sheba Medical Center, commenced purchasing annual subscriptions.

Management Team Strengthened

A number of senior executives joined the company to strengthen its management and sales infrastructure. They include Noam Markfeld, who serves as VP Sales Israel, and Julie Shafiki, who serves as VP Marketing. Mr. Markfeld has amassed 20 years of experience in information security and communications, including as Executive Account Manager at CyberArk and as VP Sales at Securenet. Ms. Shafiki has over 20 years of executive marketing experience, including at Tufin Technologies, Lumenis, Converse, Power Design and Amdocs Israel.

During July - August 2017, Safe-T reported the following significant events:

- July 2017 - **Safe-T signed a distribution agreement with Turkish Encode Consultancy**, a provider of information security and cyber solutions, granting it rights to promote, advertise and market licenses for Safe-T's SDE and SDA products in Turkey.
- July 2017 - **Safe-T signed an agreement to distribute the company's products in China**. The distributor has been granted non-exclusive rights to advertise, market, and distribute licenses for Safe-T's SDE and SDA products in China.
- July 2017 - **Safe-T announced a joint partnership with Stratoscale, a cloud infrastructure company** that allows enterprises to deploy an AWS-compatible region within their data centers. The partnership will provide Stratoscale's customers with the opportunity to enhance their existing Stratoscale on-premises AWS-compatible cloud region with Safe-T's SDP.

- August 2017 - **Safe-T launched its Software Defined Perimeter (SDP) solution for securing critical infrastructure.** The company released its first version of Safe-T SDP, which is based on their SDA technology. Safe-T SDP is tailored for the SDP market and slated to become the company's flagship product. The SDP Market size is forecasted to increase from \$992.8M in 2016 to \$4,396.1M by 2021, at a 34.7% CAGR (2016 - 2021).¹ Safe-T's management informed us that they have initial beta customers, and that this product will generate initial revenues during 2018.
- August 2017 - Safe-T received a **letter of intent (LOI) from a security-governmental body to contract with the company as a "single supplier"**.

Financial Analysis

- Safe-T's accountants have provided a warning disclosure, which is currently an on-going concern. However, we believe the company's recent capital raising will positively affect its financial stability.
- On June 22, 2017, the company received the required approvals to register their shares as American Depositary Shares (ADS) traded over-the-counter (OTC). On June 27, 2017, the company's ADSs commenced trading in the Level 1 ADR program under the symbol SFTTY, where each ADS represents four ordinary company shares.
- The company's H1 2017 revenues are similar to its H1 2016 revenues, amounting to \$400K. Cost of revenues in H1 2017 is higher by \$83K than in H1 2016 due to an increase in manpower, salary expenses, and payment-based stock. Research and development expenses totaled \$650K in H1 2017, compared with \$450k in H1 2016. The increase in research and development expenses is primarily due to an increase in salary expenses, and an increase in payment to subcontractors. Selling expenses and marketing amounted to \$1.5M in H1 2017, similar to those in H1 2016. Administrative and general expenses were \$1.1M in H1 2017, similar to those in H1 2016.
- Operating loss for H1 2017 was \$2.7M compared with \$5.4M in H1 2016. This decrease is primarily due to one-time IPO expenses in 2016 in the amount of \$1.6M, and additional IPO-related expenses of \$1.1M.
- As of June 30, 2017, the company holds \$6.9M of cash following the recent above-mentioned private investment. Safe-T equity is \$5.0M, compared with \$1.2M on December 31, 2016. We assume that the company's cash will be sufficient at least until mid-2018.
- Following their most recent round of private capital-raising, Safe-T is progressing according to their strategic plan with partnerships and agreements in place to distribute the company's products.

In our estimation, and based on the recent private investment, we are raising Safe-T's value to \$52.9M / NIS 188.3M (compared with the previous value of \$48.1M / NIS 169.1M), with a target price range of NIS 8.91 – NIS 9.88 (mean of NIS 9.38).

¹ MarketsandMarkets. *Software-Defined Perimeter (SDP) Market by Enforcement Point (Controller, Gateway, and End Point), Component (Solution and Service), Deployment Mode (Cloud and on-Premises), Organization Size, End User, and Region - Global Forecast to 2021*. November 2016.

Appendix

Appendix – Financial Reports

Balance Sheet

	Audited	Audited	Unaudited
	(\$K)	(\$K)	(\$K)
Current Assets:	<u>2015</u>	<u>2016</u>	<u>30.6.17</u>
Cash and cash equivalents	62	1,311	6,913
Restricted deposits	44	44	49
Account receivable	633	251	206
Total current assets	739	1,606	7,168
Non-Current Assets:			
PPE, net	60	70	91
Restricted deposits		13	14
Goodwill	523	523	523
Intangible assets	1,266	1,015	891
Total non-current assets	1,849	1,621	1,519
Total Assets	2,588	3,227	8,687
Current Liabilities:			
Loans	314	63	69
Accounts payables and others	967	891	1073
Total current liabilities	1,281	954	1,142
Noncurrent liabilities	24	1,101	2,583
Total Liabilities	1,305	2,055	3,725
Equity	1,283	1,172	4,962

Profit & Loss

\$K	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>30.6.16</u>	<u>30.6.17</u>
Revenues	177	531	715	843	401	400
Cost of revenues	368	503	453	512	240	283
Gross profit (loss)	-191	28	262	331	161	117
% of Revenues	-108%	5%	37%	39%	40%	29%
Research and development expenses	338	742	795	1,085	448	647
General and administrative expenses	315	685	2,252	2,123	1,374	1,492
Marketing expenses	1,220	1,460	2,295	2,892	1,118	1,074
IPO expenses	0	0	14,012	1,579	1,579	-
Total operating expenses	1,873	2,887	19,354	7,679	4,519	3,213
Operating loss	-2,064	-2,859	-19,092	-7,348	-4,358	-3,096
Financial expenses	-	833	312	1,854	1,283	703
Other financial (expenses) income, net	77	-	-1,206	-282	232	1,121
Total loss	-1,987	-3,692	-18,198	-8,920	-5,409	-2,678

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