

Quarterly Update for Q3

December 30, 2017

Safe-T: The company continues to successfully implement its growth strategy. Raised capital, launched a new web site and marketing activities, received first orders for its newly announced solution and is gearing up for dual-trading. Price target remains at NIS 9.38.

Stock Exchange: TASE

Symbol: SAFE

Sector: Technology

Sub-sector: Cybersecurity

Stock price target: NIS 9.38

As of 27 December, 2017

(Source: TASE website):

Closing price: NIS 2.97

Market cap: NIS 59.9M

of shares: 20.1M

Stock performance (YTD): -36%

Daily-trading-vol. (12 months): 647.4K

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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 Software Defined Access 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 unauthorized 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 its Q3 2017 report and until the date of our analysis report:

- Revenues for the first nine months of 2017 totaled to \$ 719 thousand, compared with \$ 619 thousand in the corresponding period in 2016. The incline in revenues was mainly due to an increase in license revenues following the adoption of a new revenue recognition standard.
- Launch of a new solution for critical infrastructure security by changing the method of providing access to services. The solution is called Software Defined Perimeter (SDP)
- The company announced the completion of the implementation of the SDP solution, the company's leading product, with a first customer in Spain.
- Safe-T received an order from a leading security agency in Israel for a total of approximately NIS 780 thousand. The company believes that this is a significant achievement, both in terms of the importance of this body as a customer of the Company, in terms of the financial scope of the order and in terms of the recognition that the Company's products receive from security agencies and offices Government in Israel.
- Signing an OEM agreement with a US cloud service provider, in which the supplier will offer the company's SDA product as part of the cloud service it sells to its customers.
- On June 22, 2017, the company received the required approvals to register its shares as separate American shares (ADS) traded over the counter (OTC).

Analysis

- The company is in line with its strategic plan with partnerships and agreements in a variety of sectors - finance and banking, security, health and other areas - which in our opinion may significantly promote the distribution of the Company's products.
- We believe the company has potential in a variety of aspects, but it also has the inherent risks of a young company operating in the competitive information security market.
- Therefore, we remain in our current assessment of the company's value, further to an increase in our previous Q2 report. Thus, the value of the company is approximately \$ 52.9 million / NIS 188.3 million with a price target range of NIS 8.91 - NIS 9.88 and an average of NIS 9.38.

Year	Revenues (\$K)	EBITDA (\$K)	EPS (\$)
201	843	-7,348	(0.77)
2017E	1,026	-5,507	(0.37)
2018E	3,420	-5,399	(0.38)
2019E	8,135	-3,196	(0.28)

Quarterly Report

Safe-T published its financial report for the third quarter of 2017. The company reported on the following major developments:

Private Investments in the company - Further to the company's report and our review of the second quarter, the company entered into agreements with private investors for investment in the company totaling NIS 22.5 million for an allotment of ordinary shares and options (non-tradeable) of the company. In addition, during the second quarter, the company exercised Series 1 and 2 options in the amount of NIS 7 million. On April 30, 2017, the company's Series 1 Options expired.

According to the company's management, the aim of the fundraising is to reorganize and strengthen the company's marketing and sales organization alongside strengthening technological development. In this framework, the company also began recruiting new personnel and training new sales teams in Israel and around the world, also to support the launch of the company's updated software solution.

Focusing on a sales model based on annual subscription purchases - As part of the company's efforts to market and sell its products to additional customers and penetrate new markets, SAFE-T is currently focusing on selling annual subscribers, including software updates and upgrades; And telephone support services. The company's management decided to focus on selling an annual subscription to its services over a one-time sale. In this way, its revenues may decrease in the short term, but after that, the company is expected to receive stable and stable revenue streams. In this context, in July, the company received four orders from customers in the United States based on an annual subscription model. In Israel, a number of companies, including leading financial firms and hospitals such as the Sheba Medical Center, began purchasing annual subscriptions.

Other events that occurred during the third quarter and until the publication of this report:

- July 2017 – Safe-T has signed a distribution agreement with Turkish company Encode Consultancy, a provider of information security and cyber solutions, which grants it rights to promote, publish and market licenses for SDE and SDA products in Turkey.
- July 2017 - The company signed an agreement to distribute the company's products in China. The Distributor has been granted non-exclusive rights to advertise, market and distribute SDE and SDA licenses in China.
- July 2017 – Safe-T has announced a partnership with Stratoscale, a cloud infrastructure company that enables organizations to deploy a zone compatible with AWS (Amazon Web Services) in their data centers. The partnership will provide Stratoscale's customers with the opportunity to improve their local operations along with Safe-T's SDP product.
- August 2017 - Safe-T launched its System Solution (SDP) to define critical infrastructure. The company released the first version of SDP, based on the company's SDA technology and future to become the flagship product of the company. The market size of the SDP is expected to rise from \$ 992.8 million in 2016 to \$ 4.4 billion in 2021 with an average annual growth rate of 34.7%. According to the company's management, they have first customers and that this product will generate initial revenues during 2018.
- October 2017 - Launch of a commercial version of the SDP.
- November 2017 - On November 1, 2017, the company announced the completion of the SDP solution implementation with the first customer in Spain.
- November 2017 - Safe-T received an order from a leading security agency in Israel for a total of approximately NIS 780 thousand, for purchase and assimilation to secure the corporate fax system, which was granted after the security body granted Safe-T the status of a "single supplier". The company reported it is a significant achievement, both in terms of the importance of this body as a customer of the company, in terms of the

monetary scope of the order and in terms of recognition of the company's products with security agencies and government offices in Israel.

- November 2017 - On November 5, 2017, the company announced the signing of an OEM distribution agreement with a cloud service provider in the United States, in which the supplier will offer the company's SDA product as part of the cloud service it sells to its customers.
- November 2017 - On November 14, 2017, the company announced that it had received an order for its SDA and SDE products from a leading bank in Israel through a distributor who purchases the products and sells them to end customers in the amount of more than NIS 200 thousand. The order is expected to be received during February 2018. In the company's estimation, this is a significant step in the penetration of the company's products into the world of banking and finance.
- November 2017 - On November 20, 2017, the company announced that it had received an order for its SDE product from a leading communications group in Israel in an amount of more than NIS 250 thousand.
- December 2017 - On December 11, the company announced an order from a leading insurance company in Israel to renew the maintenance of the company's products in the total amount of NIS 880 thousand through an authorized distributor.

Financial analysis and meanings

- On June 22, 2017, the company received the necessary approvals to register their shares as US Non-trading (ADS) traded certificates (ADS). On June 27, 2017, they began to be traded (Class 1 ADR) under the symbol SFTTY, in which all ADS represents four ordinary shares of the company.
- Total revenues of the company amounted to approximately \$ 719 thousand, compared to \$ 619 thousand in the corresponding period in 2016. The increase in revenues is due mainly to an increase in license revenues following the adoption of a new revenue recognition standard.
- Gross profit in the first nine months of 2017 amounted to approximately \$ 309 thousand, compared to approximately \$ 223 thousand in the corresponding period. The decrease in cost of sales in the third quarter of 2017 compared to the third quarter of 2016 is due to a temporary decrease in salary expenses as a result of the replacement of employees. The increase in cost of sales in the first nine months of 2017 compared to the corresponding period of 2016 is due to an increase in the number of personnel connected with professional services, support and salary expenses.
- R&D expenses increased significantly in the first nine months of 2017 and amounted to approximately \$ 1,091 thousand, compared with approximately \$ 700 thousand in 2016. The increase in R&D expenses is due mainly to an increase in salary expenses and an increase in payments to subcontractors who perform part of the company's development work.
- Selling and marketing expenses amounted to approximately \$ 2,647 thousand, compared to approximately \$2,163 thousand in the corresponding period in 2016. The increase in selling and marketing expenses is due mainly to an increase in salary expenses and an increase in the number of consultants and sales agents and an increase in marketing activity. General and administrative expenses remained at a similar rate for the corresponding period in 2016.
- The company's operating loss for the first nine months of 2017 amounted to approximately \$ 5,034 thousand, compared to approximately \$ 5,793 thousand in the corresponding period of 2016. The decrease is mainly attributed to the expenses of listing for trading on the stock exchange in 2016 in the amount of \$ 1,600 thousand, 2017 is higher by \$ 800 thousand than in 2016 (excluding the listing costs).
- The company's negative cash flow for operating activities in the first nine months of 2017 was approximately \$ 3,884 thousand, compared with approximately \$ 2,224 thousand in the corresponding period in 2016. The

increase in net cash flows used in operating activities is due to an increase in the activity of CePeData, Increase in payroll expenses and subcontractors in all departments of the company.

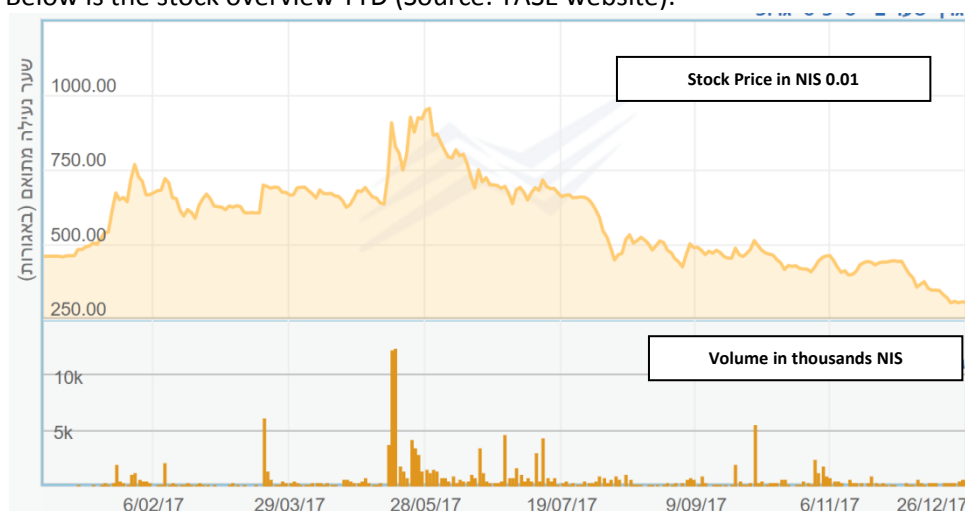
- The company's cash as of September 30, 2007 is approximately \$ 5,000. The company's shareholders' equity as of that date is approximately \$ 4,469 thousand, compared with approximately \$ 1,172 thousand as at December 31, 2016. A change caused mainly by the company's capital raising.
- The company's auditors gave it a "on-going" remark in its quarterly report, however we assume that recent capital raising by the company will have a positive impact on its financial stability.

The company is in line with its strategic plan to enter additional partnerships and agreements in a variety of sectors - finance and banking, security, health and other areas - which in our opinion may significantly promote the distribution of the company's products. In addition, the company has branded its technology products under a unified solution called - Software Defined Access (SDA). Also, the company is developing its sales reach, both with in-house sales people and through adding distributors.

We assume recent funding will last until mid 2018 and expect additional capital raising in the coming months.

We believe the company has potential in a variety of aspects, but it also has the inherent risks of a young company operating in the competitive information security market. Therefore, for the time being we remain in our current assessment of the company's value. Recall that our previous estimate in the second quarter increased the company's value. Thus, the value of the company is approximately \$ 52.9 million / NIS 188.3 million with a price target range of NIS 8.91 - NIS 9.88 and an average of NIS 9.38.

Below is the stock overview YTD (Source: TASE website):



Appendix – Financial Reports

Balance Sheet

	Audited	Audited	Unaudited
	(\$K)	(\$K)	(\$K)
<u>Current Assets:</u>	<u>2015</u>	<u>2016</u>	<u>30.9.17</u>
Cash and cash equivalents	62	1,311	5,045
Restricted deposits	44	44	48
Account receivable	633	251	596
Total current assets	739	1,606	5,689
<u>Non-Current Assets:</u>			
PPE, net	60	70	89
Restricted deposits		13	14
Goodwill	523	523	523
Intangible assets	1,266	1,015	827
Total non-current assets	1,849	1,621	1,453
Total Assets	2,588	3,227	7,142
<u>Current Liabilities:</u>			
Loans	314	63	0
Accounts payables and others	967	891	1162
Total current liabilities	1,281	954	1,162
<u>Non-Current Liabilities:</u>			
Warrants and others	0	1038	1511
Loans to Chief scientist (Israel)	24	63	0
Total Liabilities	1,305	2,055	2,673
Equity	1,283	1,172	4,469

Profit & Loss

\$K	2013	2014	2015	2016	30.9.16	30.9.17
Revenues	177	531	715	843	608	719
Cost of revenues	368	503	453	512	385	410
Gross profit (loss)	-191	28	262	331	223	309
% of Revenues	-108%	5%	37%	39%	37%	43%
Research and development expenses	338	742	795	1,085	699	1,091
General and administrative expenses	315	685	2,252	2,123	1,575	1,605
Marketing expenses	1,220	1,460	2,295	2,892	2,163	2,647
IPO expenses	0	0	14,012	1,579	1,579	-
Total operating expenses	1,873	2,887	19,354	7,679	6,016	5,343
Operating loss	-2,064	-2,859	-19,092	-7,348	-5,793	-5,034
Financial expenses	-	833	312	1,854	1,873	938
Other financial (expenses) income, net	77	-	-1,206	-282	287	2,351
Total loss	-1,987	-3,692	-18,198	-8,920	-7,379	-3,621

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