

June 7th 2017

Initiation of Coverage - Excluding Valuation*

Vonetize Plc: An Investment Opportunity in the Fast-Growing VOD/IPTV Domain**Stock Exchange:** TASE**Symbol:** VNTZ**Sector:** High-Tech**Sub-sector:** Software and Internet**As of June 4, 2017:****Closing Price:** 1.4 NIS**Market Cap:** 48.5 million NIS**# of Shares:** 34.4 million**Stock Performance**:** -25%**Average Daily Trading Volume**:** 33.1K NIS**** from July 31, 2016****Kobi Hazan - Lead Analyst****Analysts:**Deepti Dhinakaran
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*) Important Note: According to the Israel Securities Authority's regulation, an analysis can include a valuation only for companies that have been publicly traded for at least a year. A valuation will be added to the next quarterly analysis report.

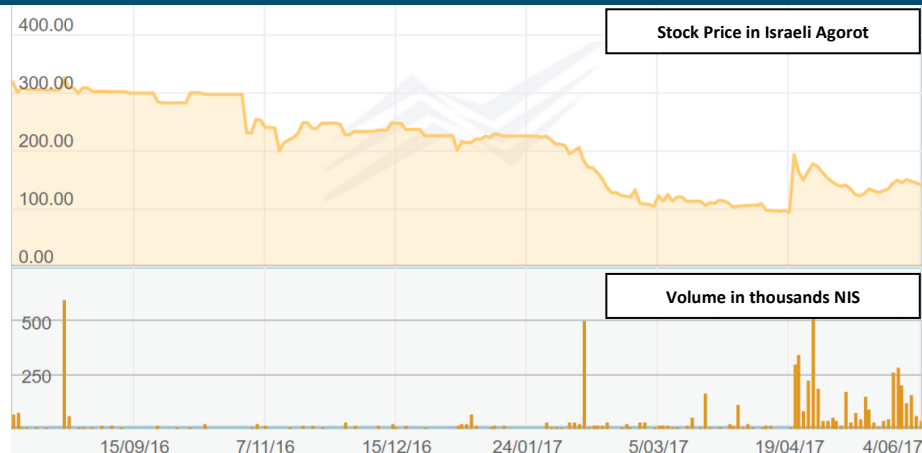
Company Overview

Vonetize Plc offers video on demand (VOD) and over-the-top (OTT) content services, and technology platforms as fully-managed services for set-top boxes, smartphones, smart TVs and other Internet-connected devices. The company offers multiscreen end-to-end video content solutions including premium content from Hollywood studios; cloud-based digital video delivery of live and VOD content; content management systems; billing; CRM; and marketing/business intelligence (BI) analysis systems. Headquartered in Israel, the company is also active in Latin America, Africa, and the UK.

Vonetize has been listed on the Tel Aviv Stock Exchange (TASE:VNTZ) since July 2016.* It was established and incorporated in Cyprus as Pixelate T.V. Ltd. in April 2011, and renamed to its current name in February 2016.

Highlights

- Vonetize is active in the VOD and OTT video markets.
- The global VOD market is forecasted to serve approximately 900 million subscribers by 2020, while VOD revenues for 2017 are expected to total \$632 million and grow at an annual rate of 15.4%.
- The company's flagship product, SmartVOD™, is an end-to-end solution that includes front-end client applications, a content management system, user management, CDN smart routing infrastructure, DRM, billing, and customer BI analysis tools. It includes premium video content licensed for distribution in 59 countries.
- Vonetize's sells its offerings directly to businesses (B2B, primarily telecommunications service providers and ISPs) as well as to individual end-users (B2C), with a clear preference for the former as it partners with communications service providers and consumer electronics manufacturers.
- While Vonetize operates in a highly competitive environment, it aims to become a market leader in the provision of VOD and Internet Protocol Television (IPTV), primarily in emerging countries, with a current focus on Africa and Latin America.
- Vonetize's auditor has provided a warning disclosure, which is currently an on-going concern. Specifically, the company needs to raise capital in 2018.
- We view this company as an opportunity for a long term growth as a small-sized company in the fast-growing VOD/IPTV space, wherein the investment entails the typical risks associated with an early-stage company.

Stock overview* YTD (Source: TASE website)

Executive Summary

Vonetize is active in the Video on Demand (VOD) and, more recently, the over-the-top (OTT) television markets. The company's platform enables Internet streaming, billing and monetization on any connected device, and includes video content licensed for distribution in 59 countries. Its vast library of video content includes Hollywood films, TV Series, niche genre, and local content.

- The company's flagship **SmartVOD** is an end-to-end solution that includes front-end client applications, content management systems, user management, and CDN infrastructure (supporting 3D, 4K), Digital Rights Management (DRM), billing, and customer service.
- During May 2017, the company announced a new offering, its **Smart** solution that is based on its SmartVOD with the addition of live TV channel delivery and cloud recording/catch-up capabilities. The result is a "TV Everywhere" model that enables full IP-based pay-TV, wherein users can access video content across multiple platforms, including on the Internet, set-top boxes, mobile devices and smart TVs through Vonetizes' applications.

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Vonetize sells its offerings via B2B and B2C business models, with a clear preference for the former as it partners with Communications Service Providers (CSPs) and consumer electronics manufacturers. Vonetize partners with these players to pre-install and bundle its service to end-users as a mobile application or a full solution including smart TV, set-top box and other Internet-connected devices. The company's B2C model entails selling video content directly to mobile subscribers via an application that is downloaded through open platforms and application stores such as Google Play and Apple AppStore.

Vonetize aims to become a market leader in the provision of VOD and IPTV, primarily in emerging countries, with a current focus on Africa and Latin America. In addition, it is focused on Israel, which provides a large base of subscribers as well as a beta-site (a sample group of end-users tries out the product before its commercial release) for its new offerings. The company's end-user base comprises approximately eight million unique users worldwide.

Frost & Sullivan forecasts that Internet will continue to be the largest and fastest growing segment for VOD subscribers and titles throughout 2014 - 2020. Moreover, the global VOD market is expected to comprise approximately 900 million subscribers by 2020.¹ Nonetheless, Vonetize operates in a highly competitive global environment, which includes a large number of B2B and B2C players that are providing content for viewing on smartphones, smart TVs, tablets, and other Internet-connected devices.

We view this company as an opportunity for a long position investment in a small-sized company in the fast-growing VOD/IPTV space.

NOTE: For the purpose of this analysis, the term "Communications Service Provider" ("CSP") will be used to denote a group that includes mobile network operators (MNOs), ISPs, and Cloud Computing Providers.

¹ Frost & Sullivan. *Global Video On-demand Technology Trends, Forecast to 2020*. March 2016.

Vision

Vonetize aims to be a market leader in premium video content solutions, primarily in emerging markets where the company has identified the greatest potential in terms of adequate technology infrastructure and positive competitive conditions.

Towards this goal, Vonetize provides an end-to-end solution that comprises premium and local video content, as well as an integrated technology platform. The latter includes, but is not limited to, pre-installed VOD applications on smart TVs and other devices, live streaming applications, cloud-based digital video recording, content management systems, streaming, billing and multiscreen support for a range of devices.

Strategy

Vonetize's strategy is to position itself first and foremost as a B2B player. Accordingly, CSPs and consumer electronics manufacturers pay the marketing expenses, while Vonetize is responsible for delivering the product, content, management and operational know-how.

To realize their strategy, the company is intent on:

- Focusing on faster time-to-market in emerging markets with VOD / IPTV offerings
- Securing licenses for new content (especially new movies from major studios) within a relatively short time of their being distributed to theaters, and before they are authorized for distribution by competitors
- Maintaining technological and business flexibility, by enabling video delivery via a wide range of devices, and supporting diverse monetization and payment models
- Developing, partnering, and acquiring new technologies

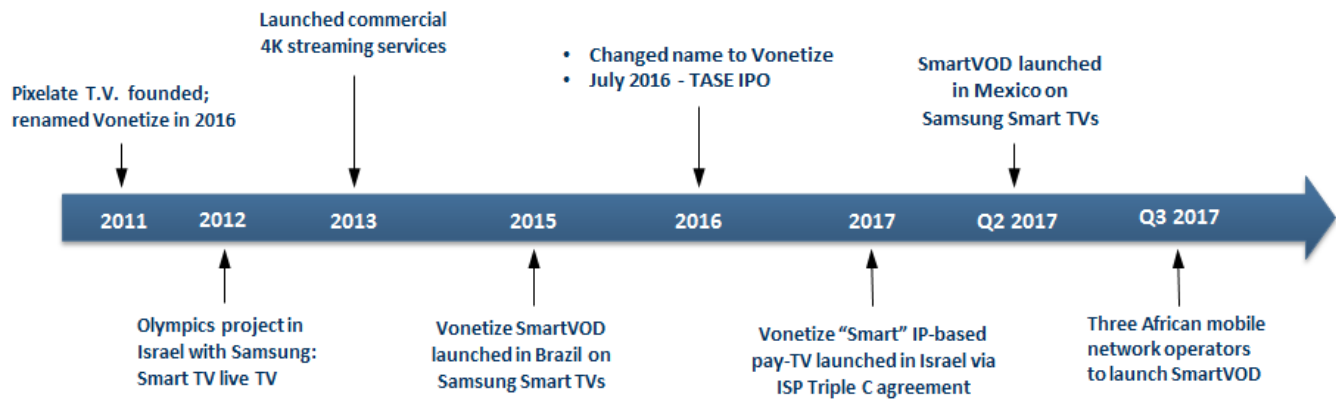
Geographically, Vonetize is currently focused on Israel, and emerging markets in Africa and Latin America since they see a large and growing need there for content services, as a means to increase data consumption and consumer take-up of broadband and infrastructure. In future, they intend to expand to additional emerging markets in East Europe, CIS, and APAC.

While Vonetize is currently distributing mainstream content, the company is contemplating diversification into content such as music, original productions, and games.

Scenarios

Upside Scenarios	Downside Scenarios
End-to-end technology platform includes content licensing, technology, and operations	Highly competitive environment, with relatively low barrier to entry for competition
Focus on low-risk B2B business model: Vonetize receives payment from partners, rather than collecting from end-users	Pirated video content is a global phenomenon
Successfully securing international content rights from major Hollywood studios, including new releases, for distribution in emerging markets	High content license fees
Services are designed with emerging markets in mind, offering flexible subscription models and payment methods	Although the company has been operating for six years, it generated less than \$2 million in 2016 revenues
Demand for VOD and IPTV is evident in emerging markets, as advanced cellular infrastructure and smart phones are the norm in these regions	B2B partnerships with CSPs and consumer electronics manufacturers entail long deal cycles; only a few have been finalized to date

Roadmap



Contents

Executive Summary	2
Vision.....	3
Strategy	3
Scenarios	3
Roadmap	4
Market Analysis.....	6
Market Overview	6
Market Need	6
Market Size & Growth Rate	7
Regulation	8
Trends & Drivers	9
Restrains	9
Marketing & Sales.....	10
Target Markets & Customers.....	10
Marketing.....	10
Sales	11
Business Partners	13
Technology	15
Product / Service Offering.....	18
Overview	18
SmartVOD	18
Smart.....	19
Competitive Analysis	21
Roadmap.....	22
Financial Analysis.....	23
P&L Analysis	23
Balance Sheet and Operational Cash Flow Analysis	23
Appendices.....	24
Appendix A- Financial Reports	24
Appendix B – Management.....	26
Appendix C - Frost & Sullivan Analyst Team	27
Disclaimers & Disclosures.....	28

Market Analysis

Market Overview

Vonetize is active in the Video on Demand (VOD) and, more recently, the Internet Protocol Television (IPTV) markets.

VOD allow users to select and view video content such as movies and TV shows at their convenience, rather than at scheduled broadcast times. IPTV refers to television content that is delivered via Internet Protocols (IP), rather than terrestrial, satellite, and cable television technologies.

Vonetize's video content is delivered as over-the-top (OTT) media. OTT refers to content that is transmitted over Communications Service Provider (CSPs') IP networks to devices such as mobile phones, PCs, and smart TVs. These CSPs do not have control over, or distribute the content; nonetheless, in the majority of cases, CSPs are essential to the VOD and IPTV ecosystems, as they provide data bundles for online video and TV streaming.

In addition to partnering with CSPs, Vonetize partners with consumer electronics manufacturers to deliver premium video content.

Geographically, the analysis will be focused on emerging markets, specifically Africa and Latin America, as Vonetize is currently targeting these regions.

NOTE: For the purpose of this analysis, the term Communications Service Provider (CSP) will be used to denote a group that includes mobile network operators (MNOs), ISPs, and Cloud Computing Providers.

Market Need

More and more subscribers are seeking reasonably-priced but rich VOD and IPTV content, and service providers are responding with more content, flexible payment models, and operability across more devices and operating systems. As a result, video content is increasingly delivered over the Internet. According to a recent Frost & Sullivan report: *"Internet will continue to be the largest and fastest growing segment for VOD subscribers and titles throughout the forecast period [2015 - 2020] because of changing consumer behaviors and viewership patterns and improving accessibility to reasonably priced VOD service packages with rich catalogues."*²

Both VOD and IPTV offer subscribers the flexibility they seek in selecting and viewing content across a range of devices (including mobile phones, smart TVs, PCs, and Tablets), rather than via the traditional option of viewing scheduled broadcast television programs.

Demand for VOD and IPTV is evident in emerging markets, Vonetize's countries of choice, as advanced cellular infrastructure and smart phones are the norm in these regions, rather than traditional cable- and satellite-based television.

² Frost & Sullivan. *Global Video On-demand Technology Trends, Forecast to 2020 Transforming TV Industry to Push Subscription Growth across Cable, DTH/Satellite, Internet and IPTV Segments*. March 2016.

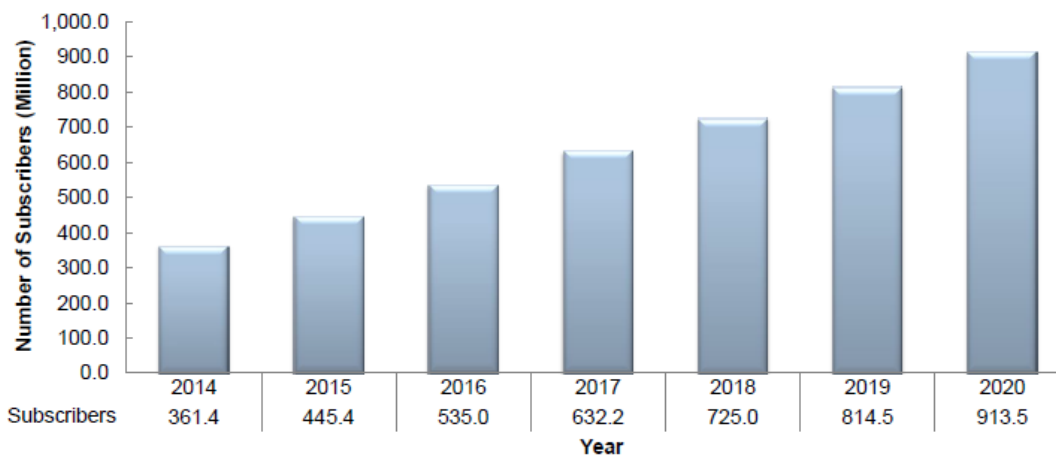
Market Size & Growth Rate

As aforementioned, Frost & Sullivan forecasts that Internet will continue to be the largest and fastest growing segment for VOD subscribers and titles throughout 2014 - 2020. Moreover, the global VOD market is expected to comprise approximately 900 million subscribers by 2020.³

VOD Market—Forecast by Number of Subscribers

Key Takeaway: Across all 4 segments, the VOD market will continue to grow at a healthy CAGR of 15.4% throughout the forecast period. The market is expected to almost triple by 2020.

Total VOD Market: Subscriber Forecast, Global, 2014–2020
CAGR, 2015–2020= 15.4%



Note: All figures are rounded. The base year is 2015. Source: Frost & Sullivan

Global OTT TV and video revenues are expected to total \$64.78 billion in 2021. As Vonetize is focused on the Latin American and Sub-Saharan African markets, it is important to note that:

- Latin American revenues will more than double between 2016 and 2021, forecasted to reach \$3.6 billion.
- Revenues will increase by a factor of approximately 13 between 2016 and 2021, expected to reach \$467 million.⁴

Moreover, SVOD will become the largest revenue source in 2020 (growing from \$9.9 billion in 2015 to \$21.6 billion), overtaking AVOD that is expected to reach \$21 billion by 2020.⁵

Africa

Africa is a “mobile-first” continent. Mobile Internet subscriber penetration in Africa was 25% in 2015, and is expected to increase to 41% by 2020. Percentages in Sub-Saharan Africa were similar with 24% in 2015, which is expected to increase to 39% by 2020.⁶

The number of smartphone connections has almost doubled over the last two years and totals 226 million.

According to the GSMA, 500 million additional smartphone connections are expected in Africa by 2020.⁷

³ Frost & Sullivan. *Global Video On-demand Technology Trends, Forecast to 2020*. March 2016.

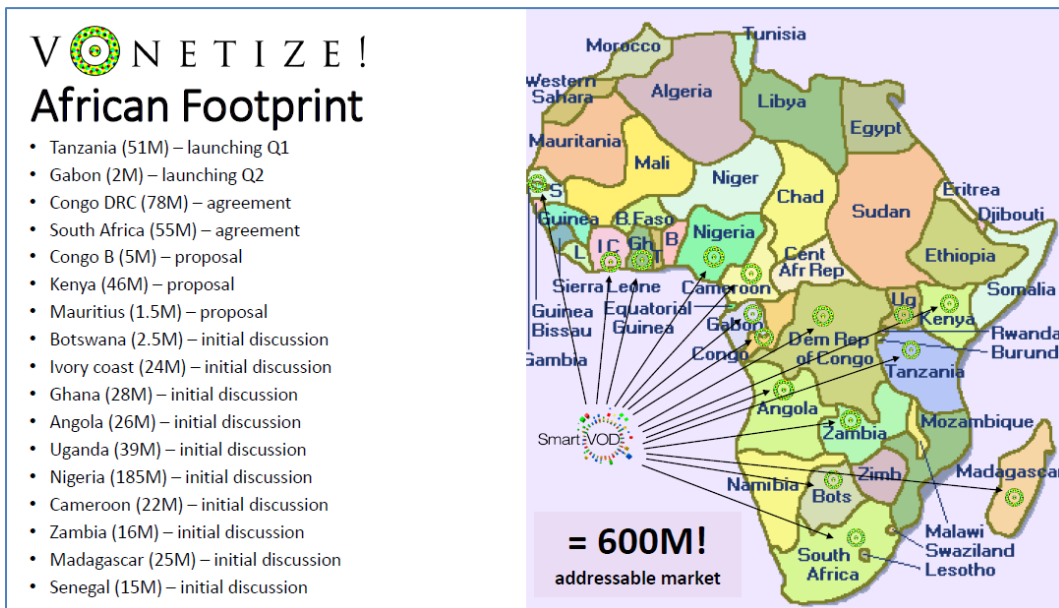
⁴ Broadband TV News. *Global OTT TV and video revenues to generate \$65 billion*. July 2016.

⁵ Broadband TV News. *OTT TV and video revenues to rocket to \$51 billion*. June 2015.

⁶ GSMA. *The Mobile Economy: Africa 2016*. 2016.

⁷ Ibid.

According to Vonetize's estimations, Africa will provide a potential market of 600 million subscribers over the next two years:



Source: Vonetize

LATAM

In contrast to Africa, Latin America is not a "mobile-first" continent. Instead, smart TVs, tablets, laptops, and broadband Internet set the stage. As such, Vonetize is focusing its initial efforts on the big screen in Latin America, prior to pursuing a mobile strategy in the region.

According to a survey conducted by Smartclip, with LG and Nielsen: Brazil has 16 million smart TVs, and nearly half of all smart TV viewing in Brazil is for VOD content.⁸

The GSMA forecasts 450 million mobile Internet subscribers in LATAM by 2020. Mobile subscriber penetration is forecast to increase from 65% of the region's population in 2015 to 78% by 2020. But, percentages vary widely by country, from as low as 28% in Cuba, to above 90% in Argentina, Chile and Uruguay.⁹

In a study covering 18 Latin America countries, OTT TV and video revenues were expected to reach \$3.59 billion in 2021, more than three times the revenue recorded 2015. Moreover, SVOD will remain the region's largest OTT revenue source over the next five years, contributing \$2,093 million by 2021.¹⁰

Regulation

In Vonetize's estimation, at this point in time, the issue of regulation can, to a large extent, be disregarded. According to the company, regulation is at its infancy stage for OTT services, and a clear need to regulate such services has not yet established. OTT video is provided via a diverse group of players, including YouTube, Facebook Live, and as premium VOD content. Business models are diverse as well. Thus, regulation cannot be imposed across the board.

⁸ Rapid TV News. *On-demand viewing drives smart TV consumption in Brazil*. May 2016.

⁹ GSMA. *Mobile Internet Users in Latin America to Grow By 50 Per Cent By 2020*. September 2016.

¹⁰ Digital TV Research. *Latin America OTT TV and Video Forecasts*. June 2016.

To the best of Vonetize's knowledge Internet-based content broadcast services are not subject to regulation in the countries in which the company currently operates.

According to Vonetize's management, the majority of countries (from Brazil to Kenya) define Internet video in the realm of e-commerce, rather than TV Broadcast. The effect of this is that content services must comply with consumer protection laws such as fair advertising, refund rights, and general age-restriction PG-rating labels.

Some countries have taken this issue a bit further, setting a threshold as to when an OTT service provider becomes a "TV provider"; for example, in Israel the proposed regulation states that a 7% market share is sufficient to designate an OTT player as the latter. Israeli law does not address services such as Netflix and Amazon, which operate globally. Moreover, it is challenging to calculate the market share for OTT service providers.

In Africa, for example, regulatory bodies in Ghana and Nigeria are currently not committed to regulating OTT. Moreover, there is no discussion on this issue in Nigeria.¹¹

Trends & Drivers

Trends and drivers supporting increasing use of VOD and IPTV services in emerging markets include:

- Increasingly faster Internet connectivity
- Increase in smartphone penetration, and growing availability of lower cost smartphones
- Improved delivery of video as 4G services are launched
- Increasingly innovative digital payment methods, including mobile money and pre-paid cards, in regions where credit cards and bank accounts are not the norm
- Limited bandwidth that is being addressed with video compression to deliver content over slow connections
- Partnerships between CSPs and VOD providers that allow subscribers to access content at zero data costs
- Allowing subscribers to download content and for offline viewing, due to low download speeds

Restraints

Key restraints in emerging markets include:

- Low Internet connectivity penetration
- Many unbanked and under-banked consumers; the use of credit cards is not very common, so other means of monetization are required
- Consumers that hesitate or are unable to purchase online
- Pirated content
- High cost of VOD operations
- Expensive data packages

Vonetize views existing restraints as challenges to be addressed and they are succeeding in this, by:

- Supporting alternative payment methods such as mobile carrier billing, debit cards, mobile money, e-wallets, paper vouchers, prepaid cards, and redeemable codes
- Enabling daily and weekly subscriptions of content packages, as many consumers in emerging markets do not purchase data packages from their mobile network operators on a monthly basis

¹¹ Marketing Edge Magazine Online. *Should the Over-the-Top market in Africa be subjected to regulation?* December 2016.

Marketing & Sales

Target Markets & Customers

Vonetize's strategy is to position itself first and foremost as a B2B player. This approach places the expense and marketing efforts on Vonetize's distribution partners, while the company is responsible for delivering the product, content, management, and operational know-how.

That being said, the company also sells video content directly to mobile subscribers via a B2C model (primarily genre applications) by providing their application for downloading through open platforms and application stores such as Google Play and Apple AppStore, to drive consumers to their content ecosystem.

While Vonetize's end-users include mobile subscribers, the company's target customers are primarily:

- **Communications Service Providers (CSPs)** with whom they will establish distribution agreements of content services through a pre-installed model, and bundles with mobile data packages, devices and triple-play offerings. CSPs require an end-to-end content platform but prefer using their own billing, content management teams and video delivery providers. According to Vonetize, its end-to-end video content will enable its CSP customers to launch a full premium content service within approximately three months, with no significant CAPEX.
- **Consumer electronics manufacturers** of smart TVs, tablets, and a range of Internet-connected devices. Vonetize pre-installs its application on smart TVs, and by doing so, generates user traffic to their content services with minimal expenses (and no marketing expenses). In this case, Vonetize technology is utilized for billing and clearance, as consumer electronics manufacturers do not have such capabilities.

Geographically, Vonetize is currently focused on Israel, and emerging markets in Africa and Latin America since they see a large and growing need there for content services, as a means to increase data consumption and consumer take-up of broadband and infrastructure. Additional factors include a less competitive environment in these regions, and it being less costly to license content (than, for example in the US and West Europe). The combination of these factors provides the company with a huge untapped subscriber base, and an enhanced ROI.

Still, the challenges are greater, and include delivering video on weaker networks and billing for usage in regions with very low credit card penetration. Vonetize is addressing these challenges through partnering with advanced video streaming providers, and by providing innovative billing models.

Marketing

Vonetize uses the following logo:



For the most part, Vonetize does not engage in direct-to-consumer marketing. Rather, their CSP and consumer electronics manufacturer partners are responsible for marketing the company's services to their consumers and subscribers.

A current exception is Brazil, where Vonetize has launched B2C activities, and where it is engaged in marketing, primarily through social networks and blogs. Marketing spend in Brazil stands at approximately \$10,000 per month only, as most of the traffic to SmartVOD stems from the pre-Installation status it has acquired from smart TV manufacturers such as Samsung.

In Israel, Vonetize spends less than \$10,000 per month on direct marketing to its 2 million users, primarily through social networks. The bulk of marketing and customer acquisition is carried out by Vonetize's distribution partners, for example the Globus MAX cinema theater chain that has paid for media, screen space and in-theater sales spots to sell Vonetize's Smart VOD service, and ISP Triple C that is distributing Vonetize's Smart OTT TV offering.

Sales

Although Vonetize aims to be positioned as a B2B player, its current sales strategy is based on both B2B and B2C business models. Its current B2C activity is being leveraged to increase its B2B customer base, by transitioning the former group of consumers to the latter's offerings.

As aforementioned, in its capacity as a B2B player, Vonetize is focused on partnering with CSPs and consumer electronics manufacturers. The company currently distributes its content through Triple C, an Israeli CSP, and pre-installs its application on Samsung Smart TVs in Israel and Brazil, and on LG Smart TVs in Israel. It will be launching with three CSPs in Africa during Q3 2017, with Vonetize's application to be installed on their subscribers' mobile phones and bundled into data plans.

Vonetize's preferred business model is one in which it partners with CSPs. This is a low-risk partnership, as the CSP collects payment from the end-user. In this case, Vonetize has a revenue-share agreement in place with the content owner(s), but does not share revenue with the CSP. The CSP pays Vonetize a wholesale price and a minimum guarantee for content provided.

A recent example of this is its partnership with Triple C in Israel. Under the agreement, Vonetize is paid \$8 per subscription sold, with a minimum guarantee of 10,000 subscriptions per month during the first year, and 20,000 subscriptions per month during the second and third years. Vonetize shares the \$8 solely with the content owner(s), and Triple C receives any amount above this.

In addition, the company also implements a B2C model as it sells its application directly through stores such as Google Play and iTunes AppStore, primarily with the intent to grow a subscriber base that will transition to consuming its video content on smart TVs and PCs. Its mobile application provides video content through an AVOD model, that is, free viewing of advertising-based content.

Geographies

Israel - Vonetize sells its content services via Samsung, LG, and Triple C, an Israeli cloud computing company. The company's SmartVOD application is pre-installed on Samsung and LG smart TVs. In addition, Vonetize partnered with ISP Triple C (in May 2017) to offer a full TV service under the former's "Smart" brand. Recognizing an opportunity to offer content services as part of a triple-play offering, Vonetize made a product pivot to bundle its SmartVOD with its new IPTV service, and Triple C's Internet offering.

Africa - Vonetize has content rights in place in 33 countries in sub-Saharan Africa. The company will operate primarily through CSPs in Africa, since content is bundled with data service on subscribers' smart phones. Their distribution strategy is to pre-install and bundle their content services with mobile network operators offering 4G/3G/fiber data. Moreover, due to the low penetration of credit cards, Vonetize will enable various payment methods such as e-wallets, mobile billing, direct debit, and manual cash vouchers.

The B2B service will be launched via the company's mobile application and distributed through local and global CSPs that are active in the region. The company's services will be formally launched by three partner CSPs during Q3 2017:

- **Clouds Media / THT in Tanzania:** Hollywood content; local content; mobile applications with cellular carrier billing connection
- **iPi9 in Gabon:** Hollywood content; local content; mobile applications with cellular carrier billing connection
- **Crystal Web in South Africa:** Hollywood content on TVOD/EST with potential future plans to develop a Triple C-like TV service.

Latin America - Content has been licensed for use by Vonetize in 25 Latin American countries. Vonetize launched its service in Brazil in December 2015, where the company's application was pre-installed on Samsung Smart TVs and gained over 1.5M users within 15 months of operation. LG Smart TVs are expected to launch in Brazil with Vonetize's application, during Q3 2017. The company's service was launched in Mexico in Q2 2017 pre-installed on Samsung Smart TVs. Initial revenues are expected during Q3 2017.

According to Vonetize's management, business operations are expected to launch across Latin America by the end of 2017. The company also expects to launch its Web-based platform and iOS/Android applications across the continent, which will provide the means to start tapping into tens of millions of non-smart TV users.

Europe

West Europe is currently not a priority for Vonetize. Nonetheless, the company has agreements in place with EE TV (IPTV) and Freeview (digital terrestrial television), wherein Vonetize provides three applications (Bollywood Channel, Baby Channel, and Corazon) based on an AVOD model, a free service to generate brand awareness and data on user usage. At the time of this report, no usage data has yet been generated.

Premium Content

The premium content (including new movie releases) that Vonetize distributes is licensed through five major movie studios, across 59 countries. Generally speaking, Vonetize pays approximately \$2 million annually (which includes a minimum commitment) to guarantee content licenses from all its providers.

Vonetize's video content is consumed via four payment models:

- **Subscription Video On Demand (SVOD)** – daily/weekly/monthly subscription providing access to most content, paid on a periodic basis (usually monthly)
- **Transactional Video On Demand (TVOD)** – also, known as “pay-per-view”, content is rented for a limited time at a one-time cost, primarily for new movies not available via subscriptions
- **Electronic Sell-Through (EST)** – content is purchased at a one-time cost for unlimited viewing, both online, as well as by downloading the file to a supported device for offline viewing
- **Advertisement Video On Demand (AVOD)** – content comprises advertisements, and thus provided for free viewing. This is not a major focus for Vonetize, as movie studios do not currently permit integrating advertisements into premium content. Still, Vonetize does allow for free viewing of some of its content to attract new users to pay for future content

Geographically, the four payment models [SVOD, TVOD, EST, AVOD] are utilized as follows:

- Israel: TVOD, SVOD and EST for B2B
- Brazil: TVOD and EST for B2B
- Africa: TVOD and SVOD through CSPs, to be launched during Q3 2017

Unique Users are defined by Vonetize as those that have accessed and/or made use of their services (for example, have viewed one video) on their device(s), whether with or without payment. Insofar as one user connected two or more devices (including a smartphone, smart TV or tablet) to a given service account, those different devices will be counted as one "unique user".

Vonetize measures "traffic" by counting unique users, providing the company with quantitative data regarding the level of interest in its services. Vonetize targets unique users that are using their premium services, such as SmartVOD, to convert them to paying users or advertising viewers. According to the company, they currently have approximately eight million unique users worldwide, including 2 million unique users in Israel, and 1.5 million unique users in Brazil.

Vonetize forecasts its revenue based on the conversion of unique subscribers (to paying users). According to the company, conversion rates are higher through CSPs as it is more probable for subscribers in emerging countries to utilize pre-paid payment methods and direct carrier billing, rather than credit cards. Through pre-paid mechanisms, subscribers are provided with the flexibility to subscribe to a content service, or to rent/purchase content. Moreover, credits (for promotions, cinema tickets and vouchers) are accrued via Vonetize's customer loyalty programs.

In addition, Vonetize is able to provide daily and weekly subscription models, which work in parallel to the most popular data plans sold by CSPs in emerging countries. The majority of customers in Africa, for example, are paying for daily/weekly data packages on a pre-paid basis, and not for the more expensive monthly packages.

Revenue & Revenue-Sharing

- Vonetize retains 100% of B2C revenues.
- Vonetize shares revenues with its B2B partners, primarily with content owners (for example, movie studios). The latter receive 50% of SVOD-based revenues, and approximately 60% of TVOD- and EST-based revenues.

Vonetize's customer service model:

- A Vonetize service level agreement (SLA) comprises:
 - Tier 4 support by Vonetize
 - Tier 1-3 by the distributor, such as a CSP or consumer electronics manufacturer
 - Training by Vonetize
- Vonetize's Tier 4 support is provided by three in-house knowledge experts. The company outsources a call center for common, recurring issues.
- As Vonetize operates globally, they are planning on recruiting local support.
- In Israel, Tier 1-2 support is provided by distributors, escalation through 24/7 support center, and if need be, additional escalation to Vonetize.
- Mobile applications include feedback features, but no chat support.

Business Partners

Business partners include:

- **CSPs** - Three African partners are set to market and launch Vonetize's services during Q3 2017.
- **Consumer electronics manufacturers** - To date, Vonetize has pre-installed its application on Samsung Smart TVs in Israel and Brazil, and on LG Smart TVs in Israel.
- **Content providers** - Vonetize has content agreements in place with five major movie studios: Disney (incl. ABC, PIXAR, Lucasfilm, and Marvel); Warner Bros.; Sony Pictures; Fox; and NBC Universal. In addition, the company has secured content license agreements with: MGM; Lionsgate; Miramax; E-One; and dozens of smaller/genre/niche local providers.



Source: Vonetize Company Presentation, October 2016

Major movie studios are seeking the means for wider distribution, and Vonetize provides the platform for this in African and Latin American emerging regions.

It costs Vonetize approximately \$1 million to “open a region” by licensing content for sale. Subsequently, according to Vonetize, approximately three months are required for renewing licensing agreements, or to expand to additional regions through content providers with whom they have entered into licensing agreements. Vonetize renews content licensing agreements on an annual basis.

In addition, Vonetize has established a strategic partnership with Globus Max, an Israeli movie theater chain that owns and operates 11 entertainment centers across the country. Consumers can purchase tickets for movies at the theater that include a monthly subscription and/or voucher to view Vonetize’s SmartVOD content.

Technology

Vonetize's end-to-end platform integrates proprietary technologies with third-party solutions.

	Hollywood Studios Approval One of very few systems having received full approval from the Studios for carrying the newest premium Releases			Latest Video Technology 4K and 3D broadcasting and support of the latest advanced formats
	Smart Admin Cloud-based management system for content, rights, encryption, business models and broadcasting management, including support of scaling and remote management of any territory with unlimited content services		Direct billing from the TV Screen The world's only billing system built for smart TVs and multiple platforms. Improves customer conversion 10-fold	
	Multi-Screen Connectivity support for all end-devices, sharing content, acquisitions and usage profiles		Real-Time Bidding Ad Engine Real-time bidding ad insertion system with global support and advanced monetization models control	

Source: Vonetize Company Presentation - October 2016

Vonetize's platform comprises three main platform components:

1. **Client Application** - view, business, and data layers
2. **Smart Admin** - cloud-based, scalable video services ecosystem
 - Business Intelligence (BI) and Analytics
 - Server architecture that scales with user growth
 - Content Management System (CMS)
 - Customer Relationship Management (CRM)
 - Digital Rights Management (DRM)
 - Real-time Ad-insertion engine
3. **Video Delivery** - live and VOD

Following is a breakdown of the three platform components (**all Vonetize technology unless indicated otherwise**):

Client application - based on a **single-code** product that supports a wide range of end-user devices, "look and feel", languages, co-branding elements, infrastructure, and operating system environments (Android, iOS, Windows).

It comprises:

- **View layer (GUI)** - defines the user interface and input device (such as a mouse) interaction. Only the view layer is changed per device, resolution, input device, and remote control
- **Business layer** (that remains unchanged across devices) - includes the business logic across all supported devices, and defines how data is created, stored, changed
- **Data layer** (that remains unchanged across devices) - comprises languages for localization
 - Sub-titled content
 - Dubbed content
 - Locally-produced content - varies from territory to territory
- The following devices are currently supported: smart TVs (including Samsung, LG, Toshiba, Sony, and Phillips); Android mobile phone; Android tablets; Android TV; iPhone; PC / Mac Desktop; iPad; Chromecast; Amazon Fire; Set Top Boxes – (retail and enterprise)

Smart Admin is a cloud-based, scalable video services ecosystem, which is designed to comply with major Hollywood Studio certifications, and adapt to emerging-market monetization and network realities

- **Business Intelligence (BI) and Analytics**, which can be utilized across services, applications, clients and regions, including (but not limited to):
 - *Data usage collection* - data, including movie titles, categories, purchases, viewing times, and user location, is collected and processed for various purposes, for example:
 - Movie studios require that video content be permitted for viewing only in certain regions (so viewers are identified according to their location)
 - Vonetize must provide Quality of Experience (QoE) for viewers of its premium content
 - *Optimal Content Delivery Network (CDN) selection*[a CDN is a network of servers that delivers Web content to users based on their geographic locations and the origin of the content] for the best, most cost-effective user experience
 - *KPI dashboards* include data on video performance, sales, views, subscriptions, churn, marketing ROI, ARPU and other "view-panes" into the data collected
- **Server architecture that scales with user growth:**
 - Virtualized and distributed across data clouds with quick auto-scaling capabilities, enabling fast operation on any continent, while maintaining a centralized data-centric intelligence and BI perspective
 - System expands and shrinks instantly to accommodate growing demand/peak-times and the need to assure uptime and minimal latency
- **Content Management System (CMS)** for creating and managing video content:
 - Cloud-based environment enables the control and operation of licensed content titles
 - Complete content library management including multiple languages, multiple video sources, localized prices and currencies, marketing materials, video assets and dynamic content categories
 - Support for strict geo-blocking
- **Customer Relationship Management (CRM)** for managing and analyzing customer interactions and data throughout the customer lifecycle. CRM is based on Vonetize technology and also utilizes:
 - Manages user access to categories, content titles, time-limited licenses, subscriptions/packages, and languages
 - Connects directly to the CMS and billing systems to provide a studio-approved "toll booth" for managing content usage, based on available payment models: SVOD, TVOD, EST, AVOD
 - *Analytics for events* utilizes **Google Analytics** and **CleverTap**
 - *Video analytics* utilizes **YOUTUBORA** for video optimization, control elements of video service that have an effect on costs, efficiency and quality of your user experience
 - *Customer service platform* utilizes **Zendesk**
 - *Digital Rights Management (DRM)* utilizes **Google Widevine** and **Microsoft PlayReady**
- **Digital Rights Management (DRM)** as it is demanded by Hollywood studios Warner and Disney, as they adhere to the strictest standards. Vonetize's distribution of major studio material, including new releases, mandates compliance with best-of-breed DRM, encryption and licensing schemes, including:
 - Support for matching each end-user device type, and operating system, to the applicable and best-performing type of DRM
 - Operating stand-alone DRM licensing servers so that each partner/distributor can deliver content via Vonetize's system, which maintains control and authority over content playability
 - Hardware chipset-based decryption protocol enables streaming of premium content, including 4K movies

- **Monetization Engine**

- Supports SVOD, TVOD, EST, AVOD, time-limited access, data-limited access, credit-based system, voucher based promotion codes and other flexible monetization methods (prepaid cards, coupons, vouchers, and scratch cards)
- SmartPay billing gateway to bill for B2C content offerings [Note: SmartPay was acquired by Vonetize. Oren Levy, Vonetize's CTO was a SmartPay Co-Founder]. In B2B scenarios, the company integrates its platform with CSP billing systems
 - Designed for smart TVs and enables direct from the TV remote control
 - Secure, PCI-compliant processing of credit cards, debit cards, local cards, PayPal
 - Connects to e-wallets, mobile wallets, and other payment methods
 - API-based dynamic pricing mechanism enabling real-time price determination according to content demand and real-time promotions
 - Integrates with partner/CSP billing system via an API-based entitlement engine

- **Real-time Ad-insertion engine** for real-time bidding of advertising for programmatic video advertising
 - Currently in trial for proof of concept

Video Delivery - Live and VOD

- Works with best-of-breed public CDNs (including Akamai, Limelight, Level3, and Amazon) with a deep-learning AI layer that controls routing of video requests to the highest success-factor CDN
- Vonetize does not own the last mile of connectivity. However, while Vonetize relies on third-party infrastructure, the company does take measures to control the quality of this connectivity

Vonetize also supports:

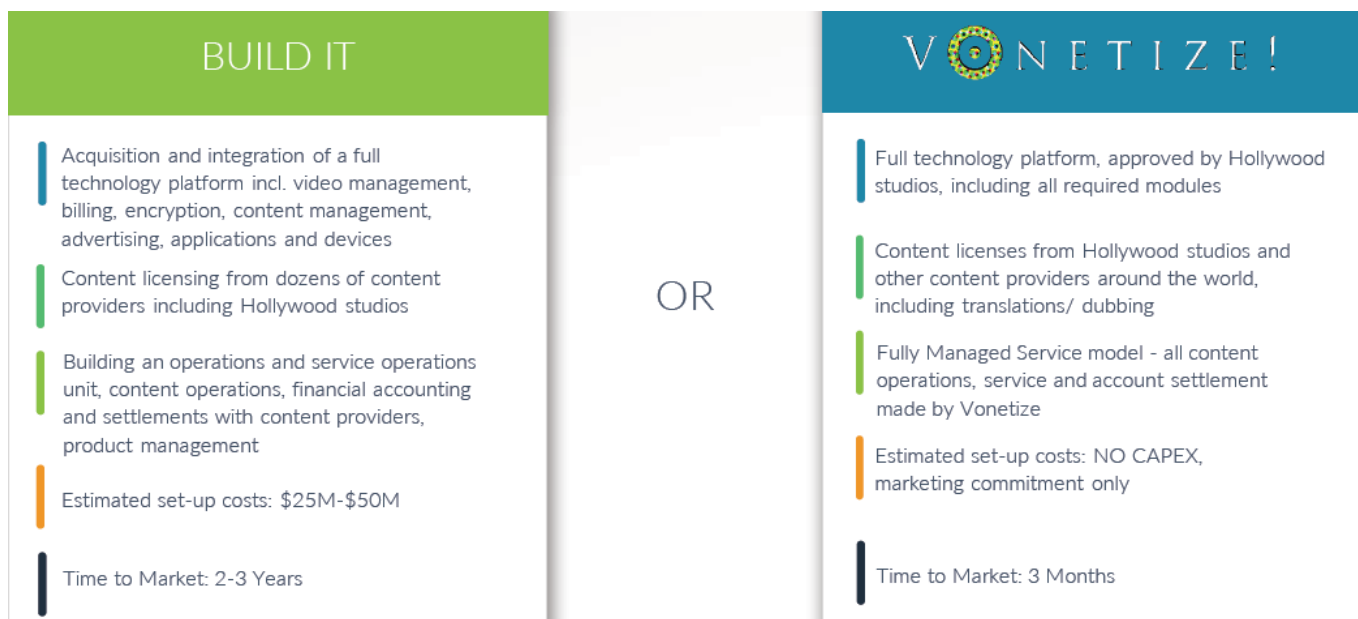
- Live channels (with EPG, nPVR, catch-up) and VOD, including dubbed/subtitled versions.
- Download to device, offline playback, and casting (very important for emerging markets with unstable networks and no smart TVs)
- 4K and 3D content

Product / Service Offering

Overview

Vonetize has developed a turnkey end-to-end platform for commercial-grade VOD and OTT services, focused on minimal integration and fast time-to-market. The solution includes a client application, fully customizable CMS, CRM, DRM, monetization engine, multi-platform functionality, and a global array of CDNs.

According to Vonetize, this integrated platform is their key differentiator, rather than any specific technology they have developed. In their estimation, deployment of their solution can save 2-3 years of product development and approximately \$25- 50 million in technology, content, integration, and procurement expenses.



Source: Vonetize Company Presentation - October 2016

SmartVOD

Vonetize's **SmartVOD** is a platform for delivering premium content across a variety of devices.



Source: Vonetize Company Presentation - October 2016

The SmartVOD solution supports:

- Various devices, including: smartphones, tablets, smart TVs, movie players, smart converters, and game consoles
- Multi-screen, i.e., connecting a number of devices to the same account and sharing content
- Viewing content in parallel or across devices, including to start viewing on one device and continue viewing on another
- Broadcast quality ranges from 4K to HD as well as 3D (on supported devices)

In addition to video content (movies, TV series, and live TV channels), Vonetize's content services include:

Genre Applications

Global Content Services tailored around a specific topic or area of interest. Intended to maximize the company's distribution and user-base in global markets.

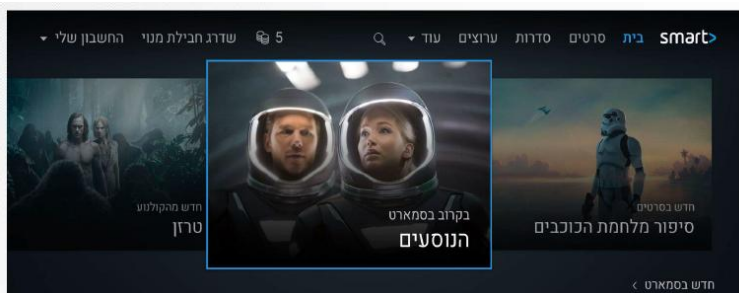


Source: Vonetize Company Presentation - October 2016

- Corazon channel - telenovelas and Latin dramatic TV series
- Bollywood Channel - Bollywood and Indian cinema
- Chef TV - cooking and baking programs
- Baby Channel - programs for babies and toddlers
- Mentors Channel - self-development tools from mentors
- Total Music channel - live concerts, DJ sets, music videos, and documentaries across various genres of music
- Planet Knowledge - a VOD service that offers factual programs
- Ketchup TV - entertainment and educational programs for preschoolers

Smart

Vonetize's **Smart** solution comprises SmartVOD plus IPTV. The result is a "TV Everywhere" model, wherein users can access video content across multiple platforms, including on the Internet and mobile devices (such as smartphone and tablets) through Vonetizes' mobile application.



Source: Vonetize Company Presentation - March 2017

Smart is available on smartphones, smart TVs, set top boxes, and Chromecast, and includes:

- Hybrid VOD offering: SVOD, TVOD movies for rental, and EST content for purchase
- Disney, children, and live TV channels (30-40 channels)
- Website support for movies, TV channels and games
- Packages for Arabic and Russian demographics
- Full rights for cloud recording, and catch-up TV for recording 7-14 days back (first time in Israel)
- App store for subscribers to download complementary services and applications via their smart TV, such as Netflix, Amazon Prime, YouTube, and Deezer

Competitive Analysis

Vonetize operates in a highly competitive global environment, replete with B2B and B2C players that are providing content for viewing on smartphones, smart TVs, tablets, PCs, and Web sites.

Following are brief descriptions of their primary competitors:

- **Netflix** is a B2C player focused on distributing original content rather than that of movie studios. Netflix is based on a subscription model (and no rental, purchase, or pay per view). Netflix's catalog includes movies that are 2-3 years old (movie studios initially release new movies for rental/purchase, then for Pay TV, and only after two years for subscription services). Netflix was launched across Latin America in September 2011 and has become an established player. However, challengers such as America Movil's Claro Video, Telefonica's Movistar Play, HBO Go, Televisa's Blim and Millicom's Tigo Play, are providing considerable competition in the subscription VOD market.¹² [Note: these are potential Vonetize challengers as well.]
- **Amazon Instant Video** is a Netflix-like service. Starting as a rental/purchase service, it transitioned into original content and a subscription model.
- **Apple's iTunes** service is focused on rental/purchase of movie studio content. As iTunes is available only on Apple devices, it has a very small market in Africa and Latin America.
- **iflix** is a Malaysian based, Netflix-like service that focuses on local content and operates primarily in Southeast Asia, but also in parts of the Middle East and Africa via iflix Arabia. Vonetize considers its closest competitor to be iflix as the latter launched as a B2C content portal, but is currently striking deals with CSPs. Moreover, iflix does not white-label its offering, and neither does Vonetize at this point in time. While iflix launched its activities in the APAC region, it is now expanding to the Middle East and Africa.
- **HOOQ** is a JV of Sony Pictures Entertainment, Warner Bros. and Singtel. It is an Asian premium VOD service that operates across South East Asia and India.
- **Wuaki.tv** is headquartered in Barcelona, and currently operates in Spain, UK, France, Germany, Italy, Austria and Ireland. The company offers movies and TV series for subscription, rental and purchase. Like Vonetize, Wuaki.tv's catalogue includes movie studio content.
- **IROKO+** is an Android app that provides premium Nollywood and Telenovelas content to 250 million French-speakers across 30 countries in Africa.¹³
- **ShowMax** is owned by African satellite provider MultiChoice, and is focused on African SVOD-based content. ShowMax partners with CSPs in Africa, and as such might provide competition in markets that are not seeking releases of new content. Vonetize does not consider ShowMax a real competitor, explaining that the latter does not enable its customers to influence the content available for viewing. Vonetize positions itself as a company that maintains continuous engagement with its partners, ensuring that content is relevant and tailored to their needs. For similar reasons, Vonetize does not consider Netflix a true competitor.
- In addition, Vonetize's Smart offering with Triple C in Israel is competing with: Hot (telecommunications and cable television); Yes (direct broadcast satellite television); Cellcom (telecommunications); and Partner Communications (telecommunications) that will be offering Netflix content.

¹² Digital TV Research. *Latin America OTT TV and Video Forecasts*. June 2016.

¹³ Frost & Sullivan. *Digital Media—Pay TV and VoD in Africa: The VoD Market in Africa*. September 2016.

A highly competitive global environment will no doubt result in consolidation. A case in point is the South African VOD market, where an inability to differentiate offerings has resulted in market consolidation.

- A number of VOD services have been launched in the past two years including Tiso Blackstar's Vidi, Altech's Node, MTN's VU, PCCW's OnTAP-tv.com, and Naspers's ShowMax
- Vidi, Node, and Wabona have all closed down in the past year largely because they failed to position themselves effectively in the market.¹⁴

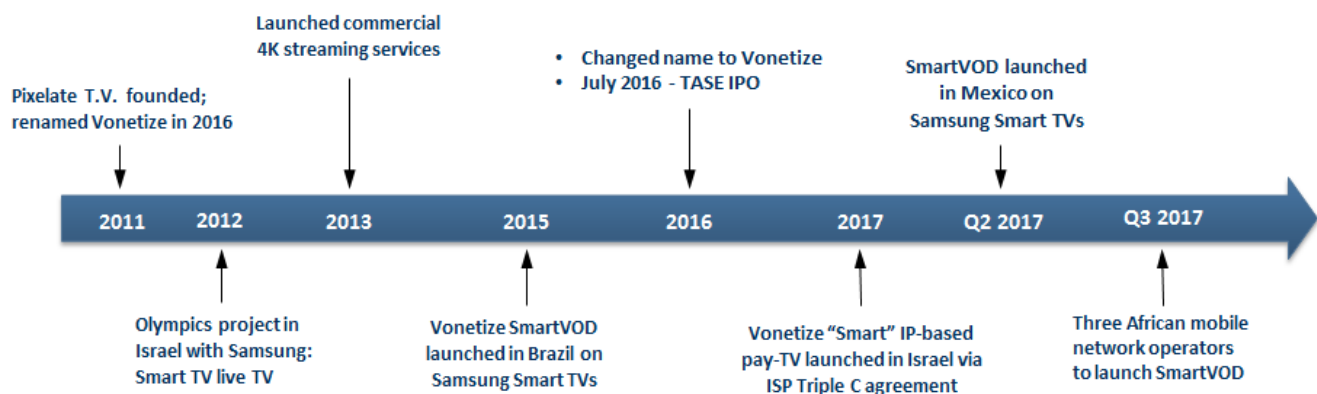
However, well-established providers like Netflix and ShowMax, who are present across multiple markets, will most likely not experience such issues.

Piracy

Content services are often offered through illegal means by entities distributing content without securing the required distribution licenses. There may be an increase in piracy consumption of content at the expense of purchasing regulated content such as Vonetize's services.

However, Vonetize's B2B business model with CSPs partially protects it from the effects of piracy. CSPs wishing to launch a content service to their customer base will have to work with a legal provider such as Vonetize, and cannot resell an illegal pirated content service. Moreover, in many markets where inexpensive, reliable and legal content services have launched, piracy has decreased significantly.

Roadmap



¹⁴ Frost & Sullivan. *Pay TV, Video on Demand, and IPTV Growth Opportunities in Africa*. September 2016.

Financial Analysis

P&L Analysis

Vonetize's revenues were \$1.65 million in 2014, \$1.96 million in 2015, and \$728K in 2016. Since 2014, the majority of revenues have come from Samsung Israel (\$2.2 million from 2014-2016), and the remainder have come from Samsung Korea as well as from individual end-users. To wit, in 2016, 85% of revenues were generated through end-users that downloaded Vonetize's application to their smartphones and/or smart TVs to view content.

While the exclusive nature of the distribution agreement with Samsung has ended in Israel, Vonetize's backlog includes minimum committed revenues from other distribution partners such as Triple C in Israel, iPi9 in Gabon and Crystal Web in South Africa. There is uncertainty regarding the company's future revenues. Cost of revenues primarily comprises content licenses expenses and streaming services expenses.

During 2014-2016, the company's R&D expenses were approximately \$1 million annually. G&A expenses were \$2.4 million in 2016, compared with \$2.1 million in 2015, although 24 employees were employed during both 2015 and 2016.

Operational loss was \$5.7 million in 2016, compared with \$2.9 million in 2015, primarily the result of a decrease in revenues and IPO-related one-time expenses. R&D and G&A expenses increased to support further development of the company's activities.

Balance Sheet and Operational Cash Flow Analysis

Vonetize's auditor has provided a warning disclosure, which is currently an on-going concern. The company's cash, as of December 31, 2016, is \$1.9 million, and fully funded by its shareholders. As of December 31, 2016, Vonetize has financial obligations to its owners totaling \$1.2 million (Vonetize acquired Smart-Pay, a private company, in 2016). The company has an equity deficit of \$0.9 million, as of December 31, 2016, compared with \$1.3 million in equity on December 31, 2015.

According to Israeli regulations, only companies that have been publicly traded for at least a year can be valued by analysts.

Appendices

Appendix A- Financial Reports

\$, 000	<u>31.12.2014</u>	<u>31.12.2015</u>	<u>31.12.2016</u>
Revenues	1,650	1,963	728
Cost of Revenues	1,247	2,020	2,766
Gross Profit (Loss)	403	-57	-2,038
Research and Development Expenses	1,029	689	1,194
General and Administrative Expenses	1,500	2,135	2,423
Other Income	-344	49	83
Operating Loss	-1,782	-2,930	-5,738
Financial Expenses	-82	-100	-241
Other Financial Expenses	88	16	5
(Income), Net			
Total Loss Before Tax	-1,776	-3,014	-5,974
Tax	-235	-146	-39
Total Loss	-2,011	-3,160	-6,013
Loss Per Share: Basic and Diluted	-0.100	-0.130	-0.210
Loss Per Share			

	31.12.2015	31.12.2016
Current Assets:		
Cash and Cash Equivalents	1,308	1,925
Other Deposits (VOD Libraries)	248	347
Account Receivable	830	504
Total Current Assets	2,386	2,776
Non-Current Assets:		
Restricted Deposits	36	23
Other Deposits (VOD Libraries)	619	308
Taxes	-	
PPE, Net	58	49
Total Non-Current Assets	713	380
Total Assets	3,099	3,156
Current Liabilities:		
Cash Withdrawals	31	14
Taxes	342	401
Accounts Payables (VOD Libraries)	656	1,457
Other Accounts Payable	673	965
Financial Obligations to Company Owners	-	692
Total Current Liabilities	1,702	3,529
Non-Current Liabilities:		
Financial Obligations to Company Owners	0	516
Accounts Payables (VOD Libraries)	76	0
Warrants Exercisable into Shares	0	31
Total Liabilities	1,778	4,076
Equity	1,321	-920

Appendix B – Management

Noam Josephides - CEO and Chairman: Prior to founding Vonetize, Mr. Josephides founded two media technology startups and a media financing fund. He has been active in the Media industry for over 15 years, and has served as a Major in the Israeli Air Force.

Oren Levy - CTO: Prior to co-founding Vonetize, Mr. Levy founded blogTV, a live-streaming platform startup. He has served as CTO in a number of companies including Tapuz and Suny Telecom.

David Ben Naim - CFO: Mr. Ben Naim served as CFO in a number of companies, including Tadiran Communications and Crow Electronic Engineering.

Tito Leguisamo - COO: Prior to joining Vonetize, Mr. Leguisamo served as COO and operations leader in a number of media and telecommunications companies, including orange Israel (Partner Communications), HOT, and Modu.

Appendix C - Frost & Sullivan Analyst Team

Kobi Hazan is the Lead Analyst at Frost & Sullivan Research & Consulting Ltd., a subsidiary of Frost & Sullivan in Israel. He has over 14 years of experience in capital markets, including research, analysis, investment advisory, and management. Mr. Hazan served as a Fund Manager for provident and mutual funds at Analyst Ltd. and, since 2012, he owns and manages the Amida Israel Fund, a hedge fund specializing in Israeli equities. Kobi holds an Economics and Management degree from The College of Management Academic Studies. He is licensed as an Investment Advisor in Israel.

Deepti Dhinakaran is a Senior Research Analyst at Frost & Sullivan India Pvt Ltd, and part of the Global Information and Communication Technologies team. Her expertise in research and consulting spans across telecommunications; business process outsourcing (BPO) and contact centers; pay TV; video on demand (VOD); IT services, cloud computing, and Internet of Things (IoT) sectors across a wide range of verticals including oil and gas, fleet management, and retail for the African market. Deepti holds a B.E. in Electronics and Communication and an MBA (Operations and Systems). Prior to Frost & Sullivan, she worked at HCL Technologies, a leading multinational IT services company.

Revital Rauchwerger is an Analyst and Consultant at Frost & Sullivan in Israel, and part of the Global Information and Communication Technologies team. Her professional experience spans Venture Capital investments to executive positions in Corporate Strategy, Product Management, and Product Marketing. Throughout the years, she has volunteered as a mentor and advisor to entrepreneurs and start-ups. Revital earned her MBA from Tel Aviv University.

Dr. Tiran Rothman is an Analyst and Consultant at Frost & Sullivan Research & Consulting Ltd., a subsidiary of Frost & Sullivan in Israel. He has over 10 years' experience in research and economic analysis of capital and private markets, obtained through positions at a boutique office for economic valuations, as chief economist at the AMPAL group, and as co-founder and analyst at Bioassociate Biotech Consulting. Dr. Rothman also serves as the Economics & Management School Head at Wizo Academic College (Haifa). Tiran holds a PhD in Economics, MBA (finance), and was a visiting scholar at Stern Business School, NYU.

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