



**Capital raising strengthens equity structure; growth in revenues and backlog but also an increased burn rate from expansion of operations; stock target price remains at NIS 9.38.**

**Primary Exchange:** TASE

**Ticker:** TLV:SAFE

**Sector:** High-Tech

**Industry:** Cybersecurity

**Data as at 19 June, 2018**

(Source: TASE)

**Closing price:** NIS 1.41

**Market cap:** NIS 39.8M

**# of shares:** 28.4M

**Stock performance (12 mos.):** -81%

**Daily-trading-vol. (12 mos.):** NIS 659K

**Stock target price:** NIS 9.38

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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 & Analysis

Safe-T released its quarterly report on 29 May, 2018 detailing the following:

**Growth in the company's revenues as well as in the backlog as well as an increase in the rate of cash burn in view of the increase in its activity in the US and Asian markets**

- Revenues for the first quarter of 2018 grew by 44% compared to the corresponding quarter last year and totaled \$458,000;
- Orders backlog also grew by 47% to \$631,000 compared to those received in the first quarter of 2017.
- On the other hand, sales and marketing expenses grew due to the Company's expansion in the Asia-Pacific and the US, leading to an operating loss and an increase in cash used for operating activities, approximately three times that for the corresponding quarter last year.

**Safe-T recently completed a financing round, with participation from leading institutions and entities. The round totaled NIS 10.6 million (NIS 9.5 million net), part of which was closed at a premium.**

- Capital was raised from investment bodies in both Israel and abroad at a price of NIS 1.28 per share for institutional investors (similar to the share price at the time) and for private investors, at NIS 1.5 (a 10% premium on the share price in the three days prior to the fundraising).
- Investors include; an Canadian hedge fund, and Infinity investment house, the latter of which increased its holdings in the company. Infinity's decision aims to further increase public interest in the company and strengthen its capital structure, the choice to reinvest is a testament to its trust in the company.
- As of the date of the report, the Company's capital raising and cash volume is expected to be sufficient till the end of 2018 without the need for additional funding. Burn rate in the
- The Company's auditors gave an "on going" warning concern to the company in its Q- 2018 report prior to the capital raising.

**We retain our previous estimate with an estimated value of \$53 million / NIS 188 million, a target price of between NIS 8.91 and NIS 9.88; a mean of NIS 9.38.**

- New data security laws in Europe (GDPR) came into force on May 25 and provide a tailwind for the company's operations in these markets on the basis of favorable regulation.
- In our view, the relative simplicity of Safe-T's product provides for competitive advantage in Europe and the US in the short term.

## Updates for Q1-2018

### Q1-2018 Quarterly Financial Results

**Revenues** for the first quarter of 2018 were \$458,000, up from the same period last year (\$319,000). The increase is mainly due to an increase in the volume of maintenance and support contracts due to an increase in the company's customer base and from the first sales of the Group's products in the Far East. The backlog of the company in the first quarter of 2018 amounted to \$631,000, of which orders amounting to approximately \$100,000 are subject to customer approval to complete the work, representing an increase of about 47% compared with orders totaling \$437,000 received in the first quarter of 2017.

**Cost of sales** increased to \$222,000 in the first quarter of 2018 compared to the first quarter of 2017 (\$139,000). The increase is due to an increase in the number of employees and as a result, an increase in salary costs. **Gross profit for the period was \$235,000.**

**The operating loss** for the quarter ended March 31, 2018 was \$2.33M. The increase compared with the operating loss in the hungry period ended March 31, 2017 (\$1.26M) stems from increases in net R&D expenses and in sales and marketing expenses.

**Net R&D expenses** in the first quarter of 2018 were \$487,000, an increase over the first quarter of 2017 (\$305,000) due to an increase in payroll expenses, mainly due to an increase in the number of employees.

**Selling and marketing expenses** for the first quarter of 2018 were \$1.91M compared to the first quarter of 2017 (\$685,000). The increase is mainly due to an increase in the number of employees, and as a result, an increase in salary costs, as well as an increase in professional services and marketing activities in Israel and worldwide, with the aim of increasing the volume of revenues.

**General and administrative expenses** in the first quarter of 2018 were \$484,000 and remained almost unchanged from the same period last year (\$475,000), with some increase in payroll expenses due to an increase in the number of employees offset by a decrease in share-based payments.

**Net financing income (expenses)** in the first quarter of 2018 was \$725,000, compared with net financing expenses of \$210,000 in the corresponding period in 2008. The transition to financing income in the first quarter of 2018 from financing expenses in the corresponding quarter last year is mainly due to the impairment of non-tradable options issued to investors in the capital raising series during 2017 offset by financing expenses due to an increase in liabilities from anti-dilution mechanisms a result of impairment in the Company's share.

**Shareholders' equity** in the company as of March 31, 2018 was \$1.82M. The increase in shareholders' equity as of March 31, 2017 (\$444,000) is due to capital raised in 2017 less the loss accrued from the corresponding date a year ago.

**Net cash used in operating activities** in the first quarter of 2018 increased compared to the corresponding period last year, due to a significant increase in the scope of the Company's operations, which was reflected in a significant increase in salary, development, sales and marketing expenses, and longer credit granted to some of the customers in the Far East during the reporting period, compared with the corresponding quarter last year. The Company's auditors gave it a "live business" comment.

## Significant events

On June 3, the Company reported the private placement of shares and options pursuant to investment agreements totaling NIS 10.5 million (gross), which was later increased to NIS 10.6 million (NIS 9.5 million, net). The offer was given at a price of NIS 1.28 per share for institutional investors, ordinary shares of the Company, without par value, at a price of NIS 1.5 per share, and a non-negotiable option for the purchase of one ordinary share. In other words, the capital raising was conducted at market price for institutional investors, whilst others paid a premium of 10% on the trading price that day. This can be interpreted as a testament to the company's confidence in the market.

In addition, following the offering, the company will issue shares to investors at an adjusted price per share in respect of their participation in the capital raising round for 2017, against a payment of NIS 0.30 per share, a total consideration of NIS 125,000.

Investors in the company are Israeli institutional investors such as Infinity and Elim, along with Nomis Bay, a Canadian hedge fund. The combined investment of \$752 million purchased 1.4 million shares (4.9% of the company's capital). A further 2.5 million shares and another 600,000 will be derived from the exercise of unlisted options to the Shrem Silberman Group, and Migdal Underwriting and Business Promotion Ltd. The total shares allocated constitute approximately 29.7% of the Company's capital, fully diluted.

The investment is supposed to finance the Company's growth activity till the end of 2018. The significant investment in the company, by financial entities that focus on technology assets, is a testament to the industry's trust in the company's strategic plans and products. In financial terms, the capital raising was transacted at market price for institutional investors and at a 10% premium for non-institutional investors.

On March 29, 2018, the Company announced that it had received re-orders, that had previously been canceled, from a leading Israeli defense company for a total consideration of NIS 570,000, and from a large Filipino health organization for more than NIS 400,000.

Safe-T has been ranked among the 35 most innovative companies in the field of information security worldwide; On May 21, the company announced that it had received a notice from the Israeli Patent Authority, which approved the patent application for "Reverse Access Method for Securing Front-End Applications".

On April 15, 2018, the company announced that it had been awarded the Cyber Fortress program to promote initiatives and development of advanced means to prevent cyber-attacks, including by identifying the world's leading companies in developing solutions for the secure maintenance of information and electronic assets. Safe-T was also ranked among the 35 most innovative companies in the field of information security worldwide.

On May 21, the company announced the approval of a patent by the Israel Patent Office. The technology, which is based on the patent, is designed to protect the core technology of the company's SDA product, reverse technology, which is an innovative, unique and ground breaking technology that is a "reverse movement" of communication and is designed to reduce the need for sensitive data storage in the Demilitarized Zone (DMZ), opening ports in enterprise firewalls, and providing secure access to networks and services. In accordance with the notice of the Patent Authority, the final approval of registration of the patent is subject to the payment of a fee and to additional formal examination.

In our view, the approval of the patent, together with the global recognition of the company's technology, further strengthens the company's intellectual property, as well as recognition of the solution offered by the SDA product in the world of information security

**We retain our previous estimate with an estimated value of \$53 million / NIS 188 million, a target price of between NIS 8.91 and NIS 9.88; a mean of NIS 9.38.**

## Appendix

### Appendix I - Financial Reports

<u>Balance Sheet</u>	31-Dec	31-Dec	31-Dec	31-Mar	31-Mar
	\$000s	\$000s	\$000s	\$000s	\$000s
<b>Current Assets:</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>
Cash and cash equivalents	62	1,311	3,514	1,692	1,609
Restricted deposits	44	44	93	47	97
Account receivable	633	251	807	537	1051
<b>Total current assets</b>	<b>739</b>	<b>1,606</b>	<b>4,414</b>	<b>2,276</b>	<b>2,757</b>
<b>Non-Current Assets:</b>					
PPE, net	60	70	165	65	176
Restricted deposits		13	-	13	-
Goodwill	523	523	523	523	523
Expenses for advanced capital raising			61	-	132
Intangible assets	1,266	1,015	764	953	703
<b>Total Assets</b>	<b>2,588</b>	<b>3,227</b>	<b>5,927</b>	<b>3,830</b>	<b>4,291</b>
<b>Current Liabilities:</b>					
Loans	314	63	-	63	-
Accounts payables and others	967	891	1,571	1,973	2,056
<b>Total current liabilities</b>	<b>1,281</b>	<b>954</b>	<b>1,571</b>	<b>2,036</b>	<b>2,056</b>
<b>Non-Current Liabilities:</b>					
Warrants and others	0	1,038	1,215	1,350	418
Loans to Chief scientist (Israel)	24	63	-	-	-
<b>Total Liabilities</b>	<b>1,305</b>	<b>2,055</b>	<b>2,786</b>	<b>3,386</b>	<b>2,474</b>
<b>Equity</b>	<b>1,283</b>	<b>1,172</b>	<b>3,141</b>	<b>444</b>	<b>1,817</b>
<b>Total Liabilities + Equity</b>	<b>2,588</b>	<b>3,227</b>	<b>5,927</b>	<b>3,830</b>	<b>4,291</b>

Statement of Profit and Loss (\$000s)	31-Dec	31-Dec	31-Dec	31-Mar	31-Mar
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>	<u>2018</u>
Revenues	715	843	1,096	319	458
Cost of revenues	453	512	583	139	223
<b>Gross profit (loss)</b>	<b>262</b>	<b>331</b>	<b>513</b>	<b>180</b>	<b>235</b>
Research and development expenses	795	1,085	1,608	305	487
Selling and marketing expenses	2,295	2,892	4,051	658	1,593
General and administrative expenses	2,252	2,123	2,150	475	484
Public listing expenses	14,012	1,579	0	-	-
<b>Total operating expenses</b>	<b>19,354</b>	<b>7,679</b>	<b>7,809</b>	<b>1,438</b>	<b>2,564</b>
<b>Operating profit</b>	<b>(19,092)</b>	<b>(7,348)</b>	<b>(7,296)</b>	<b>(1,258)</b>	<b>(2,329)</b>
Financial expenses	(312)	(1,854)	(975)	(341)	(18)
<b>Other financial expenses (income), net</b>	<b>1,206</b>	<b>282</b>	<b>2,959</b>	<b>123</b>	<b>743</b>
<b>Profit before tax</b>				<b>(1,476)</b>	<b>(1,604)</b>
<b>Taxation on revenues</b>	-	2	1	-	-
<b>Total profit</b>	<b>(18,198)</b>	<b>(8,920)</b>	<b>(5,312)</b>	<b>(1,476)</b>	<b>(1,604)</b>

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