

O.R.T Technologies Ltd.

Valuation of Holdings in Velox Puredigital Ltd.,
as of December 31, 2020

-DRAFT-

March 2021





Lior Ben Simon, C.F.O.

O.R.T Technologies Ltd.

Dear Mr. Ben Simon,

Re: Valuation of Holdings in Velox Puredigital Ltd.

Further your request, we have performed an estimation of the fair value of the holdings of O.R.T Technologies Ltd. ("ORT") in Velox Puredigital Ltd. (the "Company"/"Velox") for the financial reporting purposes ("Valuation"). The Valuation was performed as of December 31, 2020 (the "Valuation Date").

For that purpose, we were provided with the Company's Articles of Association, the Company's Capitalization Table, the Company's projected financial information as provided by ORT's management and the Company's management (together and apart: "Management") and other accompanying documents and explanations.

Use and/or publication of this report, quotation from it or its attachment to any document, for purposes that stand in contrast with the hereinafter, including in relation to the execution of any transaction and/or as part of a report to any factor, without our written permission, given in advance, is strictly prohibited.

Information Integrity

Our estimation is based solely on the facts detailed in the information given to us by you, in accordance with the specific circumstances brought forth herein. It is hereby emphasized and clarified that we have not been asked to perform, nor have we performed any tests concerning the reliability, completeness or currency of the said data. Our opinion has been prepared under the assumption that all the information we have been given is true, complete, accurate and up to date, that no significant and/or relevant details and/or documents have been omitted, and that all the details that had needed to be updated were updated prior to the signing of this report. In addition, we operated under the assumption that all the data we received was final, and underwent no changes without our knowledge after being sent to us. It is hereby clarified that any deviation from the data infrastructure we were given may bring about significant changes in this report base assumptions, and, consequently, to its results.



The appraiser shall bear no liability towards the company or towards any third party, for any inaccuracies, errors, missing or misleading information or any other representation provided by the management or on its behalf. This report does not certify the reliability and/or completeness of the information.

Foundation of the estimation

This report is an indicative economic assessment, based on specific economic models, work assumptions and forecasts, as detailed therein and below.

As any economic assessment, this report does not pretend to be absolute and exact, and, like in many cases, its conclusions depend on the subjective judgment of its authors. Another expert might have gotten other results.

This report pertains only to the economic issues directly required of it, and does not discuss other issues such as the feasibility of the transaction in question, legal aspects, taxation aspects, accounting aspects etc., directly or indirectly.

This estimation should reasonably and fairly reflect a given situation at a given time, based on the known data and the fundamental assumptions and forecasts derived from it. Other

models, facts or laws may lead to different conclusions. This estimation will only be updated at your request, and The appraiser will not be held liable for such updates or lack thereof.

The conclusions of this report should, therefore, not be relied upon with full confidence, as one would rely upon an absolute fact. Any use of this opinion and/or reliance on its conclusions is the sole responsibility of the user.

Forecasts and Forward Looking Information

Inasmuch as this report contains forecasts or forward looking information, they pertain to future events and are based on theoretical assumptions and hypothetical cases that will not necessarily hold true during the course of the relevant forecasted period. Forward looking information is not certain information. It is based on information, data, intentions and estimations as for the date of this report. Forecasts and forward looking information also greatly depend on external, macro and micro economic as well as geopolitical factors, and are affected both objectively and subjectively, by the environment the company operates in. Any changes of these data and estimates may, in turn, significantly change the effective results of this report.



Limitation of Liability

It can therefore be concluded and agreed, as a condition to the submission of this report to you, that The appraiser shall bear no liability that stems from reliance on and or use of this report, and that The appraiser shall be exempt from any liability for any damage suffered by you and/or your representatives as a result of actions and/or inactions related to this opinion directly or indirectly (with the exception of cases where a preemptory rule states that we had acted maliciously or been grossly negligent in the preparation of this opinion). You hereby declare and agree, as a condition to receiving this opinion, that you and/or the company and/or those acting on your behalf shall have no claims and/or demands and/or complaints towards us in relation to this opinion.

Without detracting from the aforementioned, insomuch as it is decided by any legal instance that The appraiser are to be held liable for this opinion in any way, this liability will be limited to the height of the fee paid to us by the company for our services, and any amount we are required to pay you and/or any third party that exceeds it, including reasonable legal expenses expended by us in relation to the aforementioned shall be returned to us immediately after it is paid.

Statement Concerning Lack of Personal Interest

We hereby declare that we have no personal interest in the Company, as defined in laws and rulings; that no conditions have been set for the payment of the fees for our services (including in relation to the results of this report); and that the height of the fee for our services is insubstantial when compared to the scope of our activity and, in our opinion, would not harm our independent, professional discretion.

We are pleased to provide this valuation service to ORT, and if you have any questions regarding our analysis, please contact us at +972 -3-7749030.

Sincerely,

A handwritten signature in blue ink, consisting of a stylized 'A' followed by a horizontal line and a small flourish.

S.C.A ECONOMIC ADVISORY LTD



SOURCES OF INFORMATION

During the course of the study, we relied on information from various sources, including but not limited to:

- ◆ The Company's Articles of Association ("AOA") updated as of the Valuation Date;
- ◆ Company's SAFE agreement signed on December, 25, 2019, as amended on June 22, 2020 and November 2020 ("Safe 12/19 Agreement");
- ◆ Company's SAFE agreement signed on June 22, 2020 as amended on November 2020 ("Safe 6/20 Agreement");
- ◆ Company's SAFE agreement signed on November 8, 2020 ("Safe 11/20 Agreement");
- ◆ The Company's audited financial statements for the year 2019;
- ◆ The Company's unaudited trial balance as of December 31, 2020, as provided by Management;
- ◆ The Company's Capitalization Table as of the Valuation Date;
- ◆ Information regarding the terms and balances of warrants and employee stock options as of the Valuation Date;
- ◆ Company's cashflow projections for the years 2021-2026;
- ◆

- ◆ Information regarding Company's pre-money value in IPO scenario, expected date of IPO and the expected capitalization table at IPO (on fully diluted as converted basis).
- ◆ Other data provided by the Management, obtained directly or through discussions.
- ◆ Various public sources and publications.

In the course of our analysis, we relied on the following information:

- ◆ Various descriptive and financial information concerning the Company's business and operations;
- ◆ Various descriptive, financial and market information concerning publicly traded companies deemed comparable to the Company; and
- ◆ Various other financial and market information deemed pertinent to the valuation analyses conducted herein.



For the purpose of this Valuation, we make no representations about the achievability of the projected financial information. Actual results may differ and these differences could be material. We have not performed agreed upon procedures, a compilation, or an examination of the projected financial information.

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1. Company Overview¹

Velox was incorporated and began business operation in January 2012 .

Velox develops and manufactures industrial-grade direct-to shape digital decoration solutions for the rigid container industry, such as digital printing systems for decorating tubes, bottles and cans. The Company's proprietary DTS-Inkjet technology, based on formulated inks and dedicated deposition architecture, introduces a new approach to digital printing to the packaging decoration market.

The Company's product is the Velox IDS 250 – an industrial-grade digital decorator for mass production of cylindrical containers available on the market. It delivers superior decoration quality and capabilities that outstrip analog printing solutions, while allowing a more efficient and flexible production process and a low total cost of ownership (TCO).



The Velox IDS 250 digital decorator is a robust solution that fully integrates Velox's innovative, proprietary, end-to-end DTS-Inkjet technology, enabling full replacement of current decoration technologies while introducing a major value-leap.

The system offers unprecedented performance levels, printing up to 250 containers per minute, with 14 simultaneous colors and embellishments, at high quality. With decoration speed that matches and even exceeds that of the production line, and the elimination of setup periods, the system enables converters to increase the capacity of their existing lines.

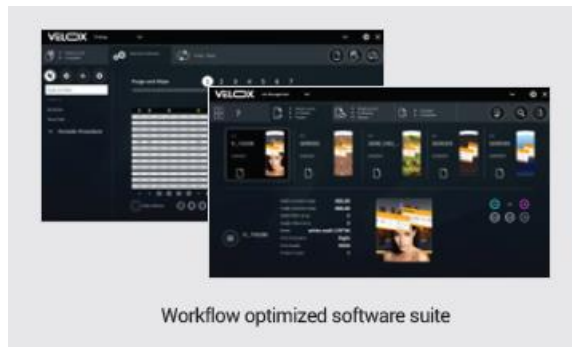
¹ Source: Company's website and data provided by Management.



Designed for 24/7 operation, Velox IDS 250 features inherent high reliability and full repeatability, boosted by built-in prevention, self-healing, and impact minimization mechanisms. It can be installed either inline or offline, to support multiple lines.

As a complete decoration solution, Velox IDS 250 combines the Velox workflow-optimized software suite and incorporated automated mechanisms, with unprecedented ease-of-use, a quick learning curve, and rapid utilization ramp-up.

This positions Velox IDS 250 to become converters' system of choice for high-volume cylindrical container decoration, enabling them to completely meet the growing pressures for supply on-demand, SKUs proliferation, and shorter production batches.



The Velox IDS 250 offers three sets of benefits:

- ✓ Highest decoration quality and capabilities - prints any decoration profile and a unique set of decoration enhancements;
- ✓ Full production speed - decorates in high quality at a speed of up to 250 containers per minute regardless of container size;
- ✓ Low total cost of ownership (TCO) - combination of high production speed and high ink efficiency makes the Velox IDS 250 a principal decoration technology for the production line, delivering the economics of mass-production with digital printing agility.

The Velox IDS 250 utilizes a specially formulated family of digital UV inks developed specifically for direct-to-shape decoration. Velox inks ensure superior-quality decoration time after time, offering an ultra-wide color gamut, exceptionally vivid and intense process colors, and advanced enhancement features. With all this, they also deliver the required decoration properties and high ink efficiency.

2. Financial Statements

2.1 The Company's Balance Sheets

The following table presents the Company's balance sheets as of December 31, 2018, December 31, 2019 (audited) and as of the Valuation Date (based on Company's trial balance, unaudited):

In USD Thousands	31.12.2018	31.12.2019	31.12.2020
	Audited	Audited	Trial Balance, Unaudited
Current Assets			
Cash and cash equivalents	12,739	5,105	2,446
Other Receivables	948	483	356
Inventories	<u>6,000</u>	<u>6,970</u>	<u>6,970</u>
Total	19,687	12,558	9,773
Long-term lease deposits	20	40	25
Long-term restricted bank deposits	594	208	
Property and Equipment, net	731	622	578
Total Assets	21,032	13,428	10,376

	Audited	Audited	Trial Balance, Unaudited
Current Liabilities			
Trade payables	856	1,451	1,004
Other payables and accrued expenses	917	1,006	1,169
Deferred Revenues	400	1,419	8,864
Total Current Liabilities	2,173	3,876	11,038
Long-Term Liabilities			
Convertible Loan	0	2,800	
Deferred Revenues	5,853	5,391	
Total Long-Term Liabilities	5,853	8,191	0
Equity	13,006	1,361	(662)
Total Equity and Liabilities	21,032	13,428	10,376

2.2 The Company's Profit & Loss Statement

The following table presents the Company's Profit & Loss statement for the years 2018, 2019 (audited):

USD Thousands	2018	2019
	Audited	Audited
Revenues	-	-
Cost of Sales	-	-
Gross Profit (Loss)	-	-
Research and development expenses	9,091	12,969
Sales and marketing expenses	557	577
General and administrative expenses	979	1,472
Operating Loss	(10,627)	(15,018)
Financial Expenses (Income)	606	(206)
Net Loss	(11,233)	(14,812)

Furthermore, According to Company's unaudited trial balance as of December 31, 2020, the Company's revenues in 2020 amounted at app. USD 100 thousands, and its operating loss and net loss have reached USD 13,567 thousands and USD 14,549 thousands, respectively.

3. Market Overview²

The global 3D printing market size is estimated to reach USD 35.38 billion by 2027, according to the new report by Grand View Research, Inc. It is expected to witness a CAGR of 14.6% over the forecast period. 3D Printing (3DP) is also referred to as Additive Manufacturing (AM), as it involves successive addition of layers of materials in various 2D shapes using an additive process. These layered 2D shapes build upon one another to form a three-dimensional object. The process is different from the subtractive method of production, which begins with a block of material and the unnecessary material is ground out to obtain the desired object .

3D printing is widely adopted in the industrial sector owing to the growing need for enhanced product manufacturing and a shorter time to market. The industrial vertical happens to be the most significant adopter of the 3DP technology and eventually leading to the highest market share of 3D printers for industrial applications over the forecast period. The additive

manufacturing is anticipated to evolve with rising R&D and technological advancements.

According to the article, the market is subject to witness a considerable economical appearance rather than being just a labor-intensive industrial manufacturing technique. Particularly in developing economies, such as Brazil, South Africa, and India; machining shops have managed to adopt alternative business models by installing 3D printers and offer related services, such as 3D materials, software, filaments, and 3D modeling.

Based on application, the 3D printing market has been segmented further into prototyping, tooling, and functional parts. Automotive, healthcare, and aerospace and defense verticals are among the leading adopters of 3D printing technology. Incumbents of these verticals have an emphasis on accuracy, enhanced product designing, reliability, shorter time to market, and economical production processes. Given that the additive manufacturing possess can offer all these benefits, the adoption of three-dimensional printers by the automotive, healthcare, and aerospace and defense verticals is expected to gain traction over the forecast period.

² Source: Cision



The 3D printing and related technologies are evolving continuously in line with the intensive R&D activities being undertaken and the aggressive investments being made by the private sector as well as the public sector. Government funding and encouraging initiatives being undertaken in developed economies are prompting manufacturers to pursue improvements in technology and the adoption of new technologies.

North America accounted for the largest market share of more than 35% in 2019 as a result of the extensive adoption of 3D printers for 3D designing, modeling, and manufacturing in various industries. On the other hand, Asia Pacific has emerged as a manufacturing hub owing to an expanding consumer base as well as the continued rise in foreign investments. Hence, the regional market is expected to witness remarkable growth over the forecast period.



4. Valuation Basis

The Valuation was performed by taking into account 2 scenarios:

1. IPO scenario – according to the Management, as of Valuation Date, Initial Public Offering (IPO) was expected to happen at the end of July 2021, at pre-money value of USD 130 million (“Value at IPO”). The Management assigned 10% probability for IPO scenario;
2. Non IPO Scenario.
3. Sensitivity Analysis was added in respect of the above probability.

IPO Scenario

In IPO Scenario, the value of each Company’s share (as converted into ordinary share at IPO) was calculated by dividing the expected Value at IPO, as adjusted to cash inflows due to exercise of options and warrants, by total number of shares (on fully diluted, converted basis), which is expected to exist in at IPO date, as was provided by Management. The above share value was further discounted by the Company’s cost of equity (equal to Company’s WACC – see Appendix B for calculation) for the assumed period from the Valuation Date to IPO.

Non IPO Scenario

In Non IPO scenario, the valuation was performed by allocation of the estimated value of the Company's equity as of the Valuation Date to different classes of shares, warrants and options on ordinary shares, using an Option Pricing Method as described in chapter 6 below.

Company's equity value was estimated utilizing Discounted Cash Flows (DCF) method as described in chapter 5 below.



5. Company's Equity Value Estimation

5.1 Valuation Methodology

In order to estimate the Company's equity value we used the Income Approach. The Income Approach is a valuation technique used to convert future cash flows to a single discounted present value amount using the discounted cash flow (DCF) method. This method requires:

- i. Estimation of future cash flows for a certain discrete projection period;
- ii. Estimation of the terminal value;
- iii. Discounting those amounts to present value at a rate of return that considers the relative risk of the cash flows, in order to determine the enterprise value, and
- iv. Adding non-operating assets and deducting financial liabilities to arrive at the equity value of the Company.

In order to use the Income Approach, an analysis of a company's revenues, expenses, capital expenditures and expected changes in working capital is made. The forecasted cashflows are based on Management projections as were foreseen as of the Valuation Date.



5.2 Cashflow Forecast

Appendix A presents the Company's cashflow forecast for the period from the Valuation Date till the end of 2026 ("Projection Period"), based on the forecast provided by Management. Following is the description of main assumptions underlying the cashflow forecast:

Revenues

According to Management's forecast, the revenues are expected to approximate \$4.3 million in 2021. In 2022 the Management expects the start of massive entry to the market of Company's products, resulting in the growth in revenues up to approximately \$15.8 million in 2022 and \$39.1 million in 2023. In 2024 and 2025 further high growth in revenues is expected by Management, following the expected further massive expansion of its operations, resulting in app. 114% and app. 78% revenue growth rates, respectively. In 2026 the revenue growth rate is expected to decline down to app. 7%, towards the annual growth rate of 3% in the long-term.

Gross Margin

According to Management's forecast, the Company is expected to incur gross losses of \$2.6 million in 2021, moving to a gross profit of app. \$1.8 million in 2022, representing a gross margin of 11.5%. Over the years 2023-2025 the Company's gross margin is expected to gradually rise from 31.1% in 2023 up to app. 45.1% in 2025, due to economy of scale, stabilizing at 45.5% from 2026 onwards.

Operating Expenses

Research and Development (R&D) Expenses

According to Management's forecast, R&D expenses were assumed at approximately \$8.5 million in 2021 and \$8.8 million in 2022. In 2023, the Management expects R&D expenses to amount to app. \$8.7 million, representing 22.2% of revenues in that year. For the rest of the projection period, i.e. for 2024-2026, the rate of R&D expenses is expected to gradually decline, down to 8.6% in 2026 and the long term, due to economy of scale.

Sales and Marketing (S&M) Expenses

According to Management's forecast, S&M expenses were assumed at approximately \$0.9 million in 2021 and \$2 million in 2022. In 2023, the



Management expects S&M expenses to rise up to app. \$3.1 million, representing 7.9% of revenues in that year. For the rest of the projection period, i.e. for 2024-2026, the rate of S&M expenses is expected to gradually decline, down to 5.7% in 2026 and the long term, due to economy of scale.

General and Administrative (G&A) Expenses

According to Management's forecast, G&A expenses were assumed at approximately \$1.3 million in 2021 and \$1.8 million in 2022. In 2023, the Management expects G&A expenses amount to app. \$2.1 million, representing 5.3% of revenues in that year. For the rest of the projection period, i.e. for 2024-2026, the rate of G&A expenses is expected to gradually decline, down to 2.9% in 2026 and the long term, due to economy of scale.

Operating Profit

Given the above assumptions relating to the operating expenses, the operating loss of \$13.6 million and \$11.2 million was estimated for the years 2021 and 2022, respectively, declining down to app.\$2.9 million in 2023. In 2024, the operating profit margin of approximately 14.7% was

assumed, gradually rising up to 27.1% in 2026 and onwards (in the long term).

Taxes on income

Based on the information provided by Management and the Company's financial statements, the estimated Company's carryforward loss for tax purposes as of the Valuation Date of approximately \$38.5 million was taken into account for the purpose of the Valuation. Furthermore, following the utilization of the above carryforward loss, a tax rate of 16% was assumed for the purpose of the valuation analysis, based on Management's assumption regarding statutory tax rate which will be relevant to the Company.

Working capital

The working capital was assumed based on the following assumptions:

- Accounts Receivable – 13.6% of revenues³;
- Accounts payable – 15.37% of revenues³;
- Inventory – gradually declining over the years 2021-2023 down to a long-term rate of 10.59% of revenues³ from 2024 and onwards.

³ Source: Damodaran Online, Stern Business School, Computers/Peripherals industry.

Depreciation and Capital Expenditure (CAPEX)

The forecasted depreciation expenses and CAPEX over the projection period were assumed according to Management's forecast, while in the long term CAPEX was assumed to equal depreciation expenses.

Long term growth

A long term growth rate of 3% was assumed.

Discount Rate

The free cashflows were discounted by the Company's Weighted Average Cost of Capital (WACC) estimated at approximately 23% (see Appendix B for detailed WACC estimation).

⁴ According to the Company's trial balance data as of the Valuation Date, as provided by Management.

5.3 Company's Equity Value Estimation Summary

Based on the cashflow forecast presented in Appendix A and its underlying assumptions as described above, the enterprise (operating) value of the Company as of the Valuation Date was estimated at approximately \$56 million (see Appendix A for detailed presentation of enterprise value estimation). In order to estimate the value of the Company's equity, financial assets (cash and cash equivalents) of approximately \$1 million were added to the enterprise value⁴.

Based on the above, the Company's equity value was estimated at approximately \$57 millions.

6. Estimation of the Value of Company's Shares Held by ORT – Non IPO Scenario

6.1 Capital Structure

As of the Valuation Date, the Company's capital includes 4 classes of shares: Series A-2 Preferred Shares, Series A-1 Preferred Shares, Series A Preferred Shares, and Ordinary shares. Furthermore, there are outstanding warrants to purchase ordinary shares and options to purchase ordinary shares, allocated according to Employee Stock Option Plan (together: "Options").

Moreover, on December 25, 2019, the Company issued to some of its shareholders SAFE notes ("Safe 12/19") in exchange for an investment of \$5.05 million in the Company, with a maturity date of December 31, 2021 ("Maturity Date"). The holders of Safe 12/19 are entitled, inter alia, to the following:

1. In case of Qualified Equity Financing round, as defined in Safe 12/19 Agreement, prior to a Maturity Date, the Company will automatically issue to each investor a number of Preferred shares issued in this financing round equal to the amount invested in Safe 12/19 divided by the issue price Preferred shares multiplied by 80% ("Discounted Price").

2. In case there is an equity financing round prior to a Maturity Date, which is not a Qualified Equity Financing, the holders of Safe 12/19 will be entitled to convert the amount invested in Safe 12/19 into a number of the shares issued in this financing round according to conversion price equal to the Discounted Price.
3. If prior to Maturity Date neither an equity financing round nor liquidity/dissolution event took place, the holders of Safe 12/19 will be entitled to convert the amount invested in Safe 12/19 into a number of the Preferred A shares according to conversion price equal to Preferred A shares' Original Issue Price multiplied by 80%.

Moreover, on June 22, 2020, the Company issued to some of its shareholders new SAFE notes ("Safe 6/20") in exchange for an investment of \$4.5 million ("Safe 6/20 Purchase Amount") in the Company, with a maturity date of June 1, 2022 ("Safe 6/20 Maturity Date"). The holders of Safe 6/20 are entitled, inter alia, to the following:



1. In case of Qualified Equity Financing round, as defined in Safe 6/20 Agreement, prior to a Safe 6/20 Maturity Date, the Company will automatically issue to Safe 6/20 holders a number of Preferred shares issued in this financing round which will represent 25% of the Company's share capital on an as-converted and fully diluted basis post such Qualified Equity Financing (including following the issuance of shares in connection with 12/19 Safe and the reservation of additional unallocated, un-promised Ordinary Shares, under the Company's share incentive plan, representing at least 5% of the Company's share capital on an as-converted and fully diluted basis).
2. In case there is an equity financing round which is not a Qualified Equity Financing, prior to a Safe 6/20 Maturity Date, the holders of Safe 6/20 will be entitled to convert the amount invested in Safe 6/20 into a number of the shares issued in this financing round which will represent 25% of the Company's share capital on an as-converted and fully diluted basis post such Qualified Equity Financing (including following the issuance of shares in connection with 12/19 Safe and the reservation of additional unallocated, un-promised Ordinary Shares, under the Company's share incentive plan, representing at least 5% of the Company's share capital on an as-converted and fully diluted basis).
3. If prior to Maturity Date neither an equity financing round nor liquidity/dissolution event took place, then the Company shall, upon

the Safe 6/20 Maturity Date, repay to the holders of Safe 6/20 Safe 6/20 Purchase Amount.

In addition, on November 8, 2020 the Company issued to some of its shareholders SAFE notes ("Safe 11/20") in exchange for an investment of \$3 million in the Company, with a maturity date of December 31, 2021 ("Maturity Date"). The terms of Safe 11/20 are similar to those of Safe 12/19.

It should be further noted that according to Management, as of the Valuation Date there was a high certainty for issuance of SAFE in exchange for additional \$2 million, carrying the same terms as Safe 11/20 (together with Safe 11/20- "Safe 11/20 and expected beg. 2021"). Due to this high certainty, the issuance of those SAFE was taken into account for the purpose of Valuation, and \$2 million investment received in exchange for those SAFE were added to the Company's equity value for the purpose of its allocation and addition \$1.5 million investment received in exchange for those SAFE in January 2021.

Furthermore, it was assumed that in case there will be no IPO, in August 2021 an equity financing round which is not a Qualified Equity Financing will take place (with only the Company's existing shareholders participating pro rata), in which additional Preferred A shares will be issued in exchange for their current Original Issue Price.



Given the above, for the purpose of the Valuation, the following Company's capitalization table was taken into account:

Type	# of Shares	# of Shares As Converted to Common Shares
Preferred A-2 Shares	815,702	815,702
Preferred A-1 Shares	2,595,176	2,595,176
Preferred A Shares (before Safe)	4,125,254	4,125,254
Safe 12/19 (Preferred A Shares)	1,311,874	1,311,874
Safe 6/20 (Preferred A Shares)	4,796,768	4,796,768
Safe 11/20 and expected beg. 2021 (Preferred A Shares)	1,298,885	1,298,885
Ordinary Shares	2,888,947	2,888,947
Options	1,447,154	1,447,154
Total	19,279,759	19,279,759

According to the AOA, upon liquidation event, the holders of Preferred Shares are entitled to receive, prior and in preference to any distribution of the proceeds to the holders of ordinary shares, an amount per share equal to Original Issue Price of each class of preferred shares, plus

cumulative interest at the rate of 8% per annum ("Liquidation Preference"). If the distributable proceeds are insufficient for the distribution of the Liquidation Preference in full to all holders of Preferred Shares, then the distributable proceeds shall be distributed among such holders of Preferred Shares, pari-passu, in proportion to the full Liquidation Preference amount such holders would otherwise be entitled to receive.

After the payment in full of the above Liquidation Preference amount, the remaining value available for distribution will be distributed to all of the holders of ordinary shares.

Notwithstanding the aforesaid, in the event that the amount that a Preferred Shareholder would receive if all its Preferred Shares were converted into Ordinary Shares immediately prior to distribution of Distributable Proceeds (without any liquidation preference) exceeds the Preference Amount, then such Preferred Shares shall be automatically converted into Ordinary Shares immediately prior to such distribution

Furthermore, notwithstanding the distribution mechanism described above, all Preferred Shares shall automatically be converted into Common Shares upon the closing of Qualified IPO (as defined in AOA). As mentioned above, the IPO scenario was addressed separately in this Valuation.

6.2 Valuation Methodology

The estimation of the value of Company's Shares held by ORT in Non IPO scenario was achieved by allocation of the estimated value of the Company's equity to the aforesaid types of shares and Options.

The allocation was performed using an Option Pricing Method. This method treats ordinary stock and preferred stock as call options on the entity's equity value, with exercise prices based on the liquidation preferences of the preferred stock. Under this method, the ordinary stock has value only if the funds available for distribution to shareholders exceed the value of the liquidation preferences at the time of a liquidation event (for example, a merger or sale), assuming the entity has funds available to make a liquidation preference meaningful and collectible by the shareholders. The stock is modeled as a call option that gives its owner the right, but not the obligation, to buy the underlying equity value at a predetermined or exercise price. In the model, the exercise price is based on a comparison with the equity value rather than, as in the case of a regular call option, a comparison with a per share stock price. Thus, for instance, ordinary stock is considered to be a call option with a claim on the equity at an exercise price equal to the remaining value immediately after the preferred stock is liquidated⁵.

⁵ Par. 6.30. AICPA Accounting and Valuation Guide "Valuation of Privately-Held-Company Equity Securities Issued as Compensation"

As mentioned above, the valuation was performed using Option Pricing Method - and specifically, using Black and Scholes model. The model also includes calculating the value of Options simultaneously and iteratively with the valuation of preferred and ordinary shares, using Black and Scholes model based on Ordinary Shares' Value iteratively calculated and parameters assumed according to the terms of the warrants for ordinary shares and different series of employee stock options issued.

6.3 Estimation Parameters

Following are the estimates of the parameters used:

1. Company's Equity Value – approximately \$60.4 million, consisting of Company's value as of the Valuation Date of app. \$57 (see chapter 5) and the investment of additional \$2 million in exchange for SAFE at the beginning of 2021 and addition \$1.5 million investment received in exchange for those SAFE in January 2021.
2. Period till liquidation event – according to the Management estimation, this period is assumed at 3 years.
3. Risk free rate – the rate of 0.17% was assumed, based on yield on 3 years US treasury constant maturities as of the Valuation Date⁶.

⁶ Source: <http://www.treasury.gov>



4. Volatility – expected volatility was estimated at app. 42.9% based on volatilities of shares of public companies operating in relevant industry⁷.
5. Expected Dividend Yield - no dividend distribution was assumed until liquidation event.

⁷ Source: Damodaran online, Stern Business School.



6.4 Valuation Results – Non IPO Scenario

The following table summarizes the estimated value of each class of shares and Options:

Class	# of Shares	Number of Shares (as converted to common shares)	Original Issue Price (\$)	Total Liquidation Preference (\$M)	% Holdings w/o Options	Total Value (\$M)	Value/share (\$)
Preferred A-2 Shares	815,702	815,702	3.61	4.38	4.57%	2.9	3.512
Preferred A-1 Shares	2,595,176	2,595,176	3.85	14.87	14.55%	9.5	3.669
Preferred A Shares (before Safe)	4,125,254	4,125,254	4.81	29.46	23.13%	17.8	4.323
Safe 12/19 Safe & 11/20 and expected beg. 2021 (Preferred A Shares)	2,610,758	2,610,758	3.85	12.10	14.64%	8.3	3.195
Safe 6/20 (Preferred A Shares)	4,796,768	4,796,768	4.81	27.80	26.90%	17.7	3.698
Ordinary Shares	2,888,947	2,888,947	-	-	16.20%	3.8	1.327
Total w/o Options	17,832,605	17,832,605		88.6	100%	60.1	
Options	1,447,154	1,447,154				0.3	
Total		19,279,759				60.4	



Based upon the above, the estimated fair value of the holdings of ORT in the Company in Non IPO scenario, as of the Valuation Date, is approximately \$13.5 million, as shown in the following table:

Class of Shares	# shares	Value/ Share (\$)	Total Value (\$K)
Preferred A Shares (before Safe) -issued on 10/18	1,454,751	4.33	6,304
Preferred A Shares (before Safe) -issued on 2/19	51,954	4.26	222
Preferred A Shares (before Safe) -issued on 3/19	51,955	4.23	220
Safe 12/19 Safe & 11/20 and expected beg. 2021 (Preferred A Shares)	617,471	3.19	1,973
Safe 6/20 (Preferred A Shares)	1,281,270	3.70	4,738
Total Value of ORT's Holding	3,457,401		13,456



7. Estimation of the Value of Company's Shares Held by ORT – IPO Scenario

The following table summarizes the estimated value of of the holdings of ORT in the Company at IPO event, based on methodology outlined in Chapter 4⁸:

	IPO
Total pre-money value (\$)	132,413,497
#shares	28,526,155
Value/share	4.64
Number of shares held by OR	4,628,403
Total Value at IPO (\$K)	21,484
Discount period	0.58
Total Value of ORT's	19,023
Holding in IPO scenario	

⁸ The total number of Company's shares and number of shares held by ORT (converted to ordinary shares) were provided to us by Management, and we express no opinion regarding the accuracy of this data.



8. Summary of the Estimated Value of Company's Shares Held by ORT

Following table summarizes the estimated fair value of the holdings of ORT in the Company, as of the Valuation Date, based on valuation analysis and assumptions described above in this Valuation report:

Scenario	Value (\$K)	Probability	Probability weighted
Non IPO	13,456	90%	12,110
IPO	19,023	10%	1,902
Total Value of ORT's Holding (\$K)			14,013

Based upon the probability of 10% IPO scenario as mention above, the estimated fair value of the holdings of ORT in the Company, as of the Valuation Date, is approximately \$14 million.

Sensitivity Analysis

Scenario	Value (\$K)	Probability	Probability weighted
Non IPO	13,456	80%	10,765
IPO	19,023	20%	3,805
Total Value of ORT's Holding (\$K)			14,569

Based upon the probability of 20% IPO scenario as mention above, the estimated fair value of the holdings of ORT in the Company, as of the Valuation Date, is approximately \$14.6 million.

Scenario	Value (\$K)	Probability	Probability weighted
Non IPO	13,456	70%	9,419
IPO	19,023	30%	5,707
Total Value of ORT's Holding (\$K)			15,126

Based upon the probability of 30% IPO scenario as mention above, the estimated fair value of the holdings of ORT in the Company, as of the Valuation Date, is approximately \$15.1 million.



Scenario	Value (\$K)	Probability	Probability weighted
Non IPO	13,456	60%	8,074
IPO	19,023	40%	7,609
Total Value of ORT's Holding (\$K)			15,683

Based upon the probability of 40% IPO scenario as mention above, the estimated fair value of the holdings of ORT in the Company, as of the Valuation Date, is approximately \$15.7 million.

Appendix A –Company's Cashflow Forecast

USD Thousands	2021	2022	2023	2024	2025	2026	Terminal
Revenues	4,317	15,750	39,064	83,668	148,871	158,846	163,611
%growth		265%	148%	114%	78%	7%	3%
Cost of Goods Sold	6,890	13,940	26,931	50,907	81,698	86,556	89,152
Gross Profit (Loss)	(2,572)	1,810	12,134	32,761	67,174	72,290	74,459
% Revenues	-59.6%	11.5%	31.1%	39.2%	45.1%	45.5%	45.5%
Research and development expenses	8,498	8,805	8,690	10,002	13,213	13,630	14,038
% revenues	196.8%	55.9%	22.2%	12.0%	8.9%	8.6%	8.6%
Sales and marketing expenses	914	1,965	3,075	5,685	8,695	9,026	9,297
% revenues	21.2%	12.5%	7.9%	6.8%	5.8%	5.7%	5.7%
General and administrative expenses	1,314	1,796	2,058	3,327	4,504	4,686	4,826
% Revenues	30.4%	11.4%	5.3%	4.0%	3.0%	2.9%	2.9%
Depreciation	277	415	1,222	1,428	2,250	1,956	2,014
Operating Profit (Loss)	(13,575)	(11,170)	(2,911)	12,320	38,512	42,993	44,283
% Revenues	-314.5%	-70.9%	-7.5%	14.7%	25.9%	27.1%	27.1%
Operating Profit After Tax	(13,575)	(11,170)	(2,911)	12,320	38,512	38,574	37,198
Cashflow Adjustments							
Investment in Fixed Assets, net of depreciation	(816)	126	(3,129)	(595)	(1,975)	(734)	0
Changes in Working Capital	(6,466)	742	(247)	(5,120)	(5,751)	(880)	(420)
Total cashflow adjustments	(7,282)	868	(3,377)	(5,715)	(7,726)	(1,613)	(420)
Free Cashflows	(20,857)	(10,302)	(6,288)	6,606	30,786	36,961	36,777
Discounted Cashflows	(18,806)	(7,552)	(3,748)	3,201	12,128	11,838	58,894
Operating Value	55,954						
Financial assets	971						
Financial Liabilities	0						
Equity Value	56,925						

Sensitivity Analysis

		Discount Rate		
		22.0%	23.0%	24.0%
Long-term Growth Rate	2.0%	59,173	52,932	47,352
	2.5%	61,438	54,928	49,120
	3.0%	63,715	56,925	50,881
	3.5%	66,227	59,128	52,822

Appendix B – WACC Estimation

In order to estimate WACC which reflects the level of Company's operating risk, we applied a CAPM model .

Following is the formula for calculating the WACC:

$$WACC = K_e * D / (D + E) + K_d * (1 - T) * D / (D + E)$$

$$K_e = R_f + R_p * BETA + S_{sp} + S_{rp}$$

where:

	Description	Note	Rate/Value
Rf	Risk-free rate	A	1.45%
Rp	Market risk premium	B	4.7%
BETA	An estimate of the Company's risk in relation to the market risk	C	1.23
D/(D+E)	Debt ratio	D	0%
Ssp	Small size risk premium	E	10.9%
Srp	Specific risk premium	F	5.0%
WACC	Cost of Capital (rounded)		<u>23.0%</u>



Notes

- A. Risk-free rate - assumed based on yield on US treasury constant maturities with 20 years duration as of the Valuation Date⁹.
- B. Market risk premium – mature market risk premium required by investor in addition to risk-free rate¹⁰.
- C. Beta – coefficient which reflects the risk of the specific investment in relation to the risk of "Market Portfolio", and is based on a correlation between the specific investment yield and "Market Portfolio" yield. For the purpose of WACC calculation, beta was estimated at the unlevered industry beta¹¹.
- D. Debt ratio – the debt-to-total capital (debt+equity) value ratio – assumed based on ratio commonly accepted in the industry, according to Management .
- E. Small size risk premium – it is common to take into account an additional risk premium as an additional return required on the investment in small cap companies. For the purpose of cost of equity estimation, a small size premium of approximately 10.91% was assumed based on the Company size¹² .

- F. Specific risk premium – reflects additional risk associated with uncertainty of cashflow forecast due to a relatively early stage of life of the Company.

Based on the above, the WACC was estimated at approximately 23% (rounded).

⁹ Source: <http://www.treasury.gov>.

¹⁰ Source: Damodaran online, Stern Business School.

¹¹ Source: Damodaran online, Stern Business School.

¹² Duff & Phelps - 2020 Valuation Handbook - Guide to Cost of Capital.



It should be noted that estimated WACC rate of 23% is close to the lower boundary of expected rates of return of start-up companies at Bridge/IPO stage of development, as presented in the following table showing the results of two published researches, Plummer¹³ and Scherlis & Sahlman¹⁴ that provide guidance about the rates of return commanded by venture capital investors at various stages of entity development:

Venture Capital Rates of Return

<u>Stage of Development</u>	<u>Plummer</u>	<u>Scherlis and Shalman</u>
Start-up	50%-70%	50%-70%
First stage or early development	40%-60%	40%-60%
Second stage or “expansion”	35%-50%	35%-50%
Bridge/IPO	25%-35%	25%-35%

¹³ Plummer, James L., QED Report on Venture Capital Financial Analysis (Palo Alto: QED Research, Inc.)

In our opinion, the level of risk embedded in Company’s cashflow can indeed be compared to the lower boundary of expected return of start-up companies at Bridge/IPO stage of development (especially given its forecast for IPO in mid 2021), and therefore the estimated WACC of 23% reflects appropriately the level of Company’s operating risk, and it is appropriate to use as a discount rate in applying DCF method for the purpose of Company’s value estimation.

¹⁴ Scherlis, Daniel R. and William A. Sahlman, "A Method for Valuing High-Risk, Long Term, Investments: The Venture Capital Method" (Boston:Harvard Business School Publishing)