DAWSONJAMES SECURITIES

# INSTITUTIONAL RESEARCH
## *Technology - Software*
## UPDATE REPORT

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# Buy Rated: Safe-T Group Ltd. (NASDAQ: SFET)

*August 31, 2022*

## Reports a Strong Second Quarter: $4.7M in Revenues

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*Safe-T Group announced 2nd Quarter results. The company continues to execute its strategy with diversified offerings in the cybersecurity and privacy markets. This has been combined with a focus on controlling expenses – cost reduction efforts.*

**Management Delivers a Strong 2Q22.** Revenues were $4.8M which translated into gross profit amounted to $2.6M. Operating expenses were down sequentially, 33% decrease in net loss in the second quarter of 2022 compared to the first quarter of 2022 (25% on a non-IFRS basis). According to management, ongoing expense reductions (mainly as a result of patent litigation now behind the company) are expected to drive improved operational results in 3Q22. Cash on Hand: The company reported a cash balance of $4M excluding an additional $5.6 million in funds under its recently secured credit line facility and investment financing.

**New Products**: Safe-T Group introduced two new products (July 2022). One is a privacy solution for Windows, allowing it to enter the large desktop computer market with its first product and its second, a privacy solution for Android mobile devices. Safe-T can now serve customers across all major hardware platforms including mobile devices running Apple iOS, Android, and personal computers.

**Patent litigation is Now Behind the Company.** Safe-T Group announced the termination of patent litigation with Bright Data. The parties have entered into a mutual release/settlement agreement to terminate the patent infringement action Bright Data initiated against NetNut in June 2021 in the United States District Court for the Eastern District of Texas.

**Valuation:** We provide a model out to 2030, but in reality, we see growth over the next two years as critical for the company to establish itself as a viable niche market premium alternative to the generic products available today. We use a 30% risk rate in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP) models, which are then equal-weighted and averaged and rounded to the nearest whole number to derive our 12-month projected price target of $6.00.

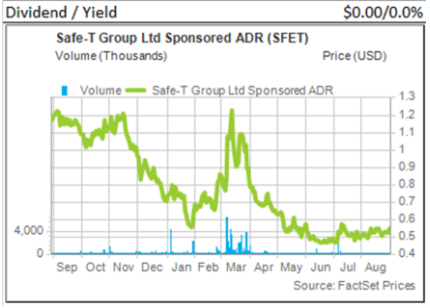
**Risks to our thesis** include: (1) IP; (2) Dependence on partners; (3) Development of the target markets (4) Acquisition and Integration (5) Intellectual Capital (6) Foreign Company (Israel) (7) Dilution Risks. We review these risks in the Risks Analysis section of this report.

| | |
|---|---|
| Current Price | $0.55 |
| Price Target | $6.00 |




Source: Safe-T Group

| Stock Data | | | |
|---|---|---|---|
| 52-Week Range | $0.44 | - | $1.31 |
| Shares Outstanding (mil.) | | | 30 |
| Market Capitalization (mil.) | | | $17 |
| Enterprise Value (mil.) | | | $4 |
| Debt to Capital | | | 0% |
| Book Value/Share | | | NA |
| Price/Book | | | NA |
| Average Three Months Trading Volume (K) | | | 133 |
| Insider Ownership | | | 15.2% |
| Institutional Ownership | | | 2.7% |
| Short interest (mil.) | | | 0.7% |
| Dividend / Yield | | | $0.00/0.0% |



**Risk Analysis: Risks to our thesis** include: (1) IP; (2) Dependence on OEM suppliers; (3) Development of the target markets (4) Acquisition and Integration (5) Intellectual Capital (6) Foreign Company (Israel) (7) Dilution Risks. In addition, some of the additional risks as outlined in company filings includes:

- If the IT security and IPPN industries do not continue to develop as is anticipated, the company's sales may not grow as forecast;
- Research and development efforts may not produce successful nor competitive products or enhancements to existing products. This could impact revenues;
- New Customer acquisition – The company's growth is dependent on the acquisition of new customers, and the sale of additional products and services to existing customers cannot be assured.
- The company itself faces risks associated with cyber attackers or other data thieves. A successful attack could hurt public perception of the company's products, and services could be harmed;
- The company depends on partners, channel partners, including systems integrators, distributors, and value-added resellers, to generate a significant portion of their revenue. If the company fails to maintain successful relationships with their OEM and channel partners, or if its channel partners fail to perform, the company's ability to market, sell and distribute its solutions could be limited, and its business, financial position, and operations could suffer.
- The company may acquire other businesses, which could require significant management attention, disrupt the company's core business, dilute shareholder value, and adversely affect results of operations;
- Safe-T Group faces business disruption and related risks resulting from COVID-19, which could impact their business and the results of their operations.
- The company must maintain effective patent rights for its products. Failure to do so could impact the ability to compete, i.e.; If the company is unable to protect the confidentiality of its trade secrets or know-how, such proprietary information may be used to compete against the company.
- If the company is unable to maintain effective proprietary rights for its products, it may not be able to compete effectively in its markets. If its unregistered trademarks and trade names are not adequately protected, it may not be able to build name recognition in the target markets of interest, and the business may be affected. Trademarks or trade names may be challenged, infringed, circumvented, or declared generic or determined to be infringing on other marks.
- The intellectual property rights of third parties could adversely affect the company's ability to commercialize its products, and the company might be required to litigate or obtain licenses from third parties in order to develop or market its product candidates. Such litigation or licenses could be costly or not available on commercially reasonable terms.

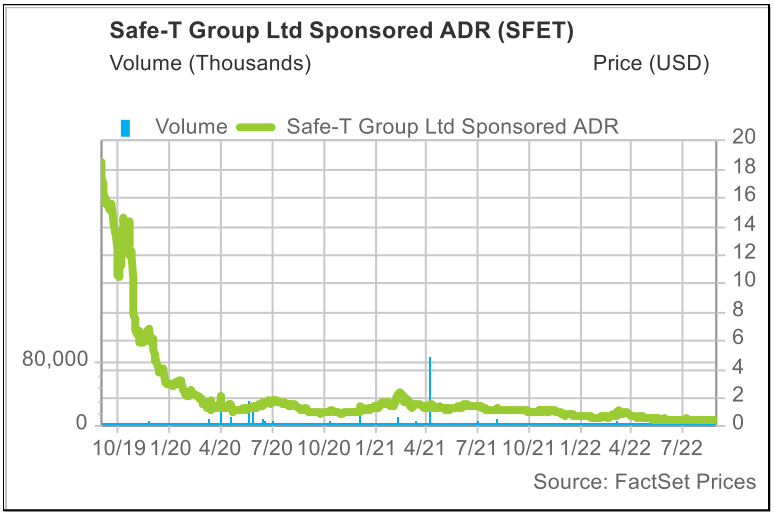
## Exhibit 1. Income Statement

| Safe-T: Income Statement ($000) | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| YE December | 2021A | 1Q22A | 2Q22A | 3Q22E | 4Q22E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
| Product Revenues (Consumer & Enterprises) | 10,281 | 4,021 | 4,777 | 4,600 | 4,600 | 17,998 | 26,997 | 35,000 | 50,000 | 75,000 | 90,000 | 120,000 | 140,000 | 140,000 |
| **Total Product Revenues** | **10,281** | **4,021** | **4,777** | **4,600** | **4,600** | **17,998** | **26,457** | **34,300** | **49,000** | **73,500** | **88,200** | **117,600** | **137,200** | **137,200** |
| **Product Sales & Royalties & Milestones** | **10,281** | **4,021** | **4,777** | **4,600** | **4,600** | **17,998** | **26,457** | **34,300** | **49,000** | **73,500** | **88,200** | **117,600** | **137,200** | **137,200** |
| **Expenses** | | | | | | | | | | | | | | |
| Cost of goods sold | 5,145 | 1,904 | 2,166 | 1,380 | 1,380 | 6,830 | 7,937 | 10,290 | 14,700 | 22,050 | 26,460 | 35,280 | 41,160 | 41,160 |
| Research and Development | 4,771 | 1,394 | 889 | 1,252 | 1,302 | 5,010 | 5,260 | 5,523 | 5,799 | 6,089 | 6,394 | 6,713 | 7,049 | 7,401 |
| Selling & Marketing | 8,348 | 3,034 | 2,624 | 2,170 | 2,257 | 8,682 | 9,029 | 9,390 | 9,766 | 10,157 | 10,563 | 10,985 | 11,425 | 11,882 |
| General & Adminastrative | 6,858 | 2,251 | 1,998 | 1,783 | 1,854 | 7,132 | 7,418 | 7,714 | 8,023 | 8,344 | 8,678 | 9,025 | 9,386 | 9,761 |
| **Total expenses** | **25,122** | **8,583** | **6,080** | **6,586** | **6,794** | **27,654** | **29,644** | **32,918** | **38,288** | **46,640** | **52,094** | **62,003** | **69,019** | **69,623** |
| Operating income (Loss) | (14,841) | (4,562) | (3,464) | (1,986) | (2,194) | (12,206) | (2,753) | 1,835 | 11,184 | 27,352 | 36,619 | 56,131 | 68,738 | 67,577 |
| Financial Income (expense) | 445 | (244) | 234 | | | | | | | | | | | |
| Tax Benefit | 153 | 79 | 72 | | | | | | | | | | | |
| **Total other income** | **598** | **79** | **72** | **-** | **-** | **0** | **0** | **0** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Pretax Income** | **(13,125)** | **(4,727)** | **(3,158)** | **(1,986)** | **(2,194)** | **(12,206)** | **(2,753)** | **1,835** | **11,184** | **27,352** | **36,619** | **56,131** | **68,738** | **67,577** |
| Income Tax Benefit (Provision) | - | - | - | - | - | - | - | 183 | 2,237 | 8,206 | 13,915 | 21,330 | 26,120 | 25,679 |
| Tax Rate | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 10% | 20% | 30% | 38% | 38% | 38% | 38% |
| **GAAP Net Income (loss)** | **(13,125)** | **(4,727)** | **(3,158)** | **(1,986)** | **(2,194)** | **(12,206)** | **(2,753)** | **1,651** | **8,947** | **19,147** | **22,704** | **34,801** | **42,617** | **41,898** |
| Deemed Dividend on Preferred Stock | | | | | | | | | | | | | | |
| **GAAP-EPS** | **(0.48)** | **(0.16)** | **(0.10)** | **(0.06)** | **(0.07)** | **(0.39)** | **(0.08)** | **0.05** | **0.27** | **0.57** | **0.66** | **1.01** | **1.22** | **1.18** |
| GAAP EPS (dil) | (0.48) | (0.16) | (0.07) | (0.04) | (0.05) | (0.28) | (0.06) | 0.03 | 0.18 | 0.38 | 0.44 | 0.67 | 0.81 | 0.79 |
| Weighted shares basic | 28,022 | 30,603 | 32,000 | 32,032 | 32,064 | 31,675 | 32,433 | 32,856 | 33,284 | 33,718 | 34,157 | 34,603 | 35,054 | 35,510 |
| Weighted shares dil | 28,022 | 30,603 | 48,000 | 48,048 | 48,096 | 43,687 | 48,650 | 49,284 | 49,926 | 50,577 | 51,236 | 51,904 | 52,580 | 53,266 |

*Source: Dawson James estimates, company reports*

**Important Disclosures:**

**Price Chart:**




Price target and rating changes over the past three years:
Initiated – Buy – January 31, 2022 – Price Target $6.0
Update Report – February 17, 2022 – Price Target $6.0
Update Report – March 29, 2022 – Price Target $6.0
Update Report – April 22, 2022 – Price Target $6.0
Update Report – May 23, 2022 – Price Target $6.0
Update Report – July 6, 2022 – Price Target $6.0
Update Report – August 31, 2022 – Price Target $6.0

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2) **Neutral**: The analyst believes the price of the stock is fairly valued for the next 12-18 months.
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The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 29-Aug-22

| | Company Coverage | | Investment Banking | |
|---|---|---|---|---|
| **Ratings Distribution** | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 28 | 90% | 5 | 18% |
| Market Perform (Neutral) | 2 | 6% | 0 | 0% |
| Market Underperform (Sell) | 1 | 3% | 0 | 0% |
| Total | 31 | 100% | 5 | 16% |

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