

Strictly private and confidential

Nexense Technologies USA Inc.

Indicative Valuation Study

September 2015



To whom it may concern,

Per your request, BDO Ziv Haft Consulting & Management Ltd. (Hereinafter: "BDO") performed a valuation analysis of Nexense Technologies USA Inc. (hereinafter: "the Company" or "Nexense") as of 30 September 2015 (Hereinafter: the "Valuation Date").

This report, the analysis and conclusions herein are based on information that has been generated by the company and therefore, has not been subject to our independent verification.

Following are the information sources upon which our study was based:

- The Company's business plan and other data provided by the Company's management.
- The Company's website.
- Bloomberg.
- Publicly available information.

The analysis and conclusions contained herein are based on various assumptions which may not remain valid for the whole of the relevant period. Moreover, the assumptions are based upon factors and events subject to uncertainty. Future results or values could be materially different from the forecasts and analysis contained herein.

BDO makes no representations or warranty, express or implied, as to the accuracy or completeness of the underlying assumptions, estimates analyses or other information contained in this report, and nothing contained herein is or shall be relied upon as a promise or a representation, whether as to the past, the present or the future.

Please note that some of the financial data received, was in electronic-spreadsheet format and did not include any audited, reviewed or otherwise formulated financial statements, as should be the case in a standard valuation study.

This report is not intended to, and may not, be relied upon by any other party and, therefore, any other person or entity who received this report or the information contained herein, with BDO permission or otherwise, is hereby put on notice that (1) they are responsible for their own analysis and may not rely on any information contained herein, and (2) BDO makes no representations or warranties, including as to the accuracy or completeness of the information contained herein or any other written or oral communication transmitted or made available to (the third party) and expressly disclaims any and all liabilities based on such information or on omissions there from.

As visible in this indicative value analysis, we believe the Company's fair value should be approximately USD 58 million.

Should you have any questions concerning our analysis or report, please contact us at +972-3-6374391.

Respectfully submitted,

BDO Ziv Haft
CPA
Consulting & Management Ltd.

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Section 1

Company Overview

Company Overview

General Description

Nexense Technologies USA Inc is a subsidiary of Nexense Ltd, is an Israel-based company which developed several sensor solutions for the measurement of various physical parameters, offering extreme accuracy and resistance in an affordable cost. The Company was established in 2001 by Arik Eliav, an expert in the field of sensors, and is partly held by GE Healthcare Ltd. Some of its major clients include Boeing, Johnson & Johnson and Samsung.

The Company's sensors offer direct measurement of the inspected element without conversion, as they measure the parameter itself in Direct Measuring Method without converting it in order to secure maximum Signal to Noise ratio and to conduct measurements in harsh conditions.

Its state-of-the-art sensor technology has a signal-to-noise ratio (SNR) of up to 190 dB, 22-bit resolution, digital output without an ADC, and the ability to make measurements without the need for any direct contact, in a non-intrusive and non-emissive manner.

Furthermore, the technology and its applications are protected by multiple patents and pending applications, in order to ensure exclusivity and long term advantage.

The Company focuses on implementing its sensors in solutions for two medical conditions:

1. Sleep Apnea.
2. Snoring.

Products

The First Generation Product - the "Snoring Care"

The Company has been selling its first generation product For the treatment of fierce sleep apnea. This product includes a sensor located under the mattress and a feedback transmitter worn on the hand. The sensors monitor the sleeping patient's breathing pattern, and provide a growing alarm sound when the patient stops breathing during sleep. The alarm wakes the patient up, prompting him to start breathing consciously. After a few months of use, the patient becomes accustomed to the sensor, and the alarm no longer affects his sleep, while achieving the same positive outcome.

Within 6 months of its product release, the Company reached 8% of the Continuous Positive Airway Pressure (CPAP) market in Israel, spending USD 2,000 per month in Google advertising.

The Company plans to re-engineer its first generation product to decrease its manufacturing cost and to make it more elegant.

The Second Generation Product - the "Night Watch"

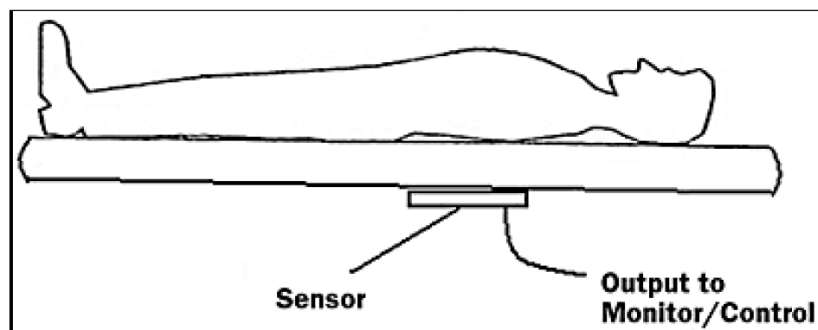
Further to the existing product, the Company developed a new product to treat both light sleep apnea and snoring. This product is lighter, costs less to produce, and comes with an accompanying smartphone application.

The Company puts an emphasis on distributing its leading solutions through the internet, with customers purchasing the products directly from it.

Company Overview

Products (Continued)

The Company's first generation product, "Snoring Care":



The Company's second generation product, "Night Watch":



Company Overview

Nexense's Sensor Technology

The Company's measurement technology utilizes a technique that measures a range of physical parameters as a function of time. Using specially developed sensors and equipment, its devices measure the time it takes an energy wave to propagate through a specific medium.

When viewed as a function of time, all physical parameters can be measured to a level of accuracy previously unattainable other than by using extremely complicated and costly equipment. An energy wave is repeatedly transmitted from one point in the object to a receiver at another location in the object.

A predetermined reference point is detected in the cyclically repeating energy wave at the second location. The frequency of transmission of the energy wave is continuously and automatically altered in a closed loop controlled by the specific characteristic of the measured component. This change in frequency is used to produce a measurement of the physical parameter.

This measurement is accomplished in two stages. In the first stage, the measured parameter acts upon the transit time of the wave. In the second stage, the transit time is converted to a frequency.

In a typical application, a transmitter and a receiver are placed on or within a specific medium. The transmitter can emit any type of cyclically repeating energy wave.

Depending on the application, this wave could be acoustic, radio, light, or magnetic and can be transmitted through any medium, including air, silicone, metals, liquids, or gases. The parameter acting on the medium (force, pressure, temperature, etc.) causes a minute displacement of the medium or a change in its natural velocity coefficient (the speed at which the energy wave travels through the medium) and thus causes an actual or virtual displacement of the transmitter and receiver.

Virtual displacements can result from a temperature change. For example, an acoustic wave at 5,000 m/s through metal will experience a change in its velocity as the temperature changes. During the process, the transit time of the frequency changes.

Generally speaking, the transit time gives complete information regarding displacement and temperature. However, measuring transit time directly presents some challenges. First, to directly measure the transit time of a single pulse, a resolution of a few picoseconds is required. Second, when sending the pulse signal, the received signal needs to be strongly amplified in order to obtain a rectangular shape.

To obtain the time-stabilized signal, the Company uses a specially designed time-to-frequency converter. In effect, this is an electrical oscillator with a delay line, i.e., the transmitter and receiver are connected to the electrical feedback loop.

Company Overview

Nexense's Sensor Technology (Continued)

The receiver's signal is amplified and then passed to a high-speed comparator that produces a square signal. The comparator's output is connected to the transmitter. Immediately after receiving the signal, the transmitter sends it back through the medium (or channel), completing the feedback loop.

Any electrical circuit has noise. If the hysteresis of the comparator is sufficiently low, the noise signal will pass through the feedback loop. However, the resonant transmitter and receiver loop will only select frequencies within their bandwidth.

There are two ways to initiate the oscillations in the loop: an artificial pulse or a pulse that appears when power is switched on. Because of the resonant features of the transducers, a group of several pulses will be obtained on the receiver output and then sent to the channel via the transmitter synchronizing the phase. On each following pass, the pulses will have greater duration until finally the continuous frequency (a standing wave) is established in the loop, providing the sensing function.

With distinctive innovative sensor technologies, the Company is well-positioned to become a market leader in the snoring and obstructive sleep apnea treatment markets. Furthermore, its substantial technological superiority grants it the opportunity to further develop its proprietary sensor technology to achieve leadership in various markets.



The Night Watch

Company Overview

Intellectual Property

The company's intellectual property is protected by multiple patents in order to provide its clients a strong IP protection.

Intellectual property rights are one of the Company's most important assets. Its technology, applications and products, both in the medical and non-medical fields, are protected by the laws of the United States and other jurisdictions worldwide.

In most cases, International Patent Applications were filed under the Patent Cooperation Treaty (PCT Applications) to preserve the right to obtain patent protection in many countries throughout the world. At present, several of these are still within the permitted period for foreign filings.

Patent Applications have also been filed in a many countries, including Europe, Japan, S. Korea, China, and Canada.

The following table summarizes the Company's patent assets:

Serial No.	Patent No.	Description
1	7,716,988	Equipment for use in controlling snoring and the associated sensor unit Patent Applications have also been filed in a large number of countries, including Europe, Japan, S. Korea, China, and Canada.
2	7,710,124	A Method and the required apparatus for detecting panel conditions.
3	7,533,571	Equipment for making highly-sensitiv measurements of various parameters, and sensors particularly useful in such equipment.
4	7,520,179	A Method and the required apparatus for measuring force - particularly torque.
5	7,325,460	Force sensor method and construction.
6	7,313,491	A Method and the required apparatus for high-precision frequency measurement.
7	7,266,989	Sensor system for high-precision measurements of temperature, composition, and/or fluid pressure.
8	7,080,554	High-precision measuring method and apparatus.
9	6,984,993	Method and apparatus for making high-precision measurements.
10	6,856,141	High-precision measuring method and apparatus.
11	6,621,278	High-precision measuring method and apparatus.

Source: the Company's management.

Company Overview

The Management Team

Aric Ariav - Founder

Aric has 35 years of experience in research and development, with a focus the brain. He studies the way in which people have an effect on the development of diseases, obesity and other abnormalities in their daily lives through unexplained brain processes. Aric is currently working directly with people, seeking these hidden processes that change the brain in order to cure diseases. Aric takes the approach of addressing the source of the problem rather than the symptoms.



Aric's previous study investigated sleep problems in humans and developed a dedicated system for solving the problem of sleep apnea by encouraging the mind to overcome it in a natural way, without the need for masks, medicines or surgery.

This device is currently at Nexense's treatment center. The Company intends to continue the production of the device on a global scale. Before this project, Aric's research focused on developing accurate sensors for support and wellness systems such as safety systems for vehicles, a mechanism for reducing air pollution, etc.

Aric's previous research focused on three dimensional mapping of open space with sound waves.

He also founded and managed an energy and structure control company,

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which still exists and an industry leader in Israel. (Hotelo).

Aric served in the prestigious 8200 unit in the IDF and worked as a technician at Tadiran which sent him to study engineering.

Bary Molchadsky - CEO

Bary has 15 years of experience in the capital markets through leading investment firms. In the past Bary worked at Mizrahi Bank in the risk management department for the capital market. He was one of the founders of the Top Alfa Investment House and also initiated and founded IBI Trade as part of the IBI Investment House. In addition, Bary consults for private companies, which are raising capital, and provides investment banking services through his company GPIS



Company Overview

The Management Team

Professor Oleg Figobski - Director

Prof. Oleg Figovsky is the founder and R&D the Polymate Ltd. - International Nanotechnology Research Centre where he is working on research in nanostructured corrosion-resistant composite materials and protective coatings based on a polymer and silicate matrix. Novel nanotechnologies invented by Prof. O. Figovsky were the basis for establishing industrial production in the US, Canada, China, Mexico, Russia and Israel.



He is a member of the European Academy of Sciences and Head of the UNESCO Chair "Green Chemistry". For his inventions in nanotechnologies he was awarded gold and silver medals at IENA-98 and Gold Angel Prize at the Genius 2006 exhibition.

Prof. Oleg Figovsky has authored of a few books, more than 300 scientific articles and 500 patents.

Dobroslav Melamed

Dr. Dobroslav Melamed, 37, is a biotech entrepreneur with over 10 years of experience in the life science industry. He has demonstrated success in taking drugs from the lab to the shelf by identifying target markets, planning regulatory strategy, raising capital, executing successful clinical trials and scaling up to commercial production. He is currently establishing two companies involved in the development of a treatment for Ebola and novel drug delivery. Until September 2014, he was the President of SciVac (formerly SciGen IL), a high growth biopharmaceutical company that develops, manufactures and markets recombinant human health care biotechnology derived products, including vaccines. Dr. Melamed was responsible for SciVac's operations, clinical trials and new business.



Dr. Melamed is the co-founder of Periness LTD, a developer of new drugs for male infertility and Oshadi LTD, a developer of oral carriers for proteins like insulin. He has also been a researcher at Bar-Ilan University's Male Fertility clinic, where he assisted in the development of new drugs for male infertility; and QBI, where he worked in the Pre-clinical and Research Pharmacology Department establishing In Vivo models for drug discovery and delivery. Melamed earned a PhD in Biotechnology and a Bachelor of Arts degree in Biotechnology from the Bar-Ilan University, Israel.

Company Overview

The Management Team

Dr. Alexandr Tsimerman

Dr. Alexandr Tsimerman has significant experience in sales and marketing, business development, and international marketing strategy in the hospital and healthcare industry. He has a proven track record of multi-million projects sales, building companies and representative offices from zero in several countries simultaneously. He has worked as a Business Development Director and Advisor in several international companies worldwide in the hospital and healthcare industry. He has developed and managed new business opportunities within the healthcare industry in Eastern Europe and FSU, strategic alliances and partnerships



Section 2

Industry Analysis

Industry Analysis

The Snoring Treatment Market¹

The Company, through Night Watch, is positioned to benefit from the growing snoring treatment market. This market includes all persons suffering from snoring on a regular basis, of whom only a fraction turns to medical assistance.

This market consists of various manufacturers of devices and medication, as well as surgical solutions. Snoring treatment devices include chin straps, mouthpieces, nasal strips, nasal cones, anti-snoring pillows, therapeutic rings, Tongue Retaining Devices (TRD), Tongue Stabilizing Devices (TSD), Mandibular Advancement Devices (MAD) as well as Continuous Positive Airway Pressure Devices (CPAP)².

Snoring is one of the most common sleep conditions that involve noisy breathing caused by vibration of relaxed soft tissues of the nose, soft palate or pharynx while sleeping, and is generally regarded as a first sign of Obstructive Sleep Apnea. It is believed to be common among adults, with as much as 30% of adults aged 30 and above suffer from the phenomena³. It is considered a health risk in the long run, as it leads to deprived oxygenation state during sleep and found to be the main factor in increased cardiac atherosclerosis, stroke and even death.

Snoring can be the result of many factors, such as obesity, alcohol or other sedative abuse, muscular degeneration as a result of old age or muscular dystrophy, obstruction of nasal cavity by the tongue/tonsil/oral plate and more. It is found to increase with age and to be more common among men.

The type of snoring treatment depends upon the condition persisting and the cause of the snoring pattern. For example, snoring as a result of the tonsils and adenoid regions is often solved by mandibular splints, while those caused by nasal cavity collapse are often treated by the application of nasal strips or dilators.

It is believed that 90 million American adults snore with some frequency, while 37 million do it on a regular basis, or 12% of the American population⁴. Based upon the aforementioned data, we estimate the global snoring treatment market to be about USD 5.1 billion in 2015, gradually growing towards USD 9 billion in 2023.

¹ Persistence Research.

² Markets and Markets.

³ Sleep Disorders Guide.

⁴ The American National Sleep Foundation.

Industry Analysis

The Obstructive Sleep Apnea Treatment Market

Obstructive Sleep Apnea (hereinafter: "OSA") is a sleep-related breathing disorder defined as an absence of breathing for at least 10 seconds, despite an effort to breathe. It is regarded as a major threat to the overall health of a person, as it results in various other conditions like insomnia, lethargy, daytime sleepiness, weakened immunity, blood pressure hypertension, anxiety, depression, gastrointestinal reflux disease, hypoxia, nerve damage, decreased motor and memory function and more.

OSA has both anatomic and physiological factors: Anatomic factors- nose, tongue, lateral pharyngeal walls, soft palate, tonsils and parapharyngeal fat pads; Physiological factors- reduced reflex responses of the tongue and soft palate muscles to negative airway pressure.

It is estimated that about half of people who snore loudly have OSA, and 20% of adults have at least mild OSA. 24% of the population over the age of 60 is afflicted, together with an estimated 7% of women and 23% of men aged 30-60, totaling about 38M patients in the US. Furthermore, 80% of patients with OSA are believed to be undiagnosed, few symptomatic patients are diagnosed and even fewer are treated⁵.

Available treatments for OSA include pillows and recliners, which are shown to decrease overall snoring among adults, and are often used with other snoring aids. Furthermore, automatic PAP machines are used in chronic patients who reject surgery as an option and are highly effective in soothing muscles near the oral and nasal cavity. Many of these devices employ steam or positive air pressure via a nasal tube that allow for greater air flow through the nasal cavity.

As technology advances become attainable and affordable, home care treatment is projected to account for the major share of the OSA treatment market⁶.

The majority of sales for OSA and snoring devices is found in developed nations in regions such as North AmArca, Europe, Australia and New Zealand.

The overall snoring cessation market by both volume and revenue lies majorly in North AmArca and Europe, while the Asia Pacific region is projected to grow in the near future with increased awareness and rising standards of living.

⁵ Strategic Intelligence.

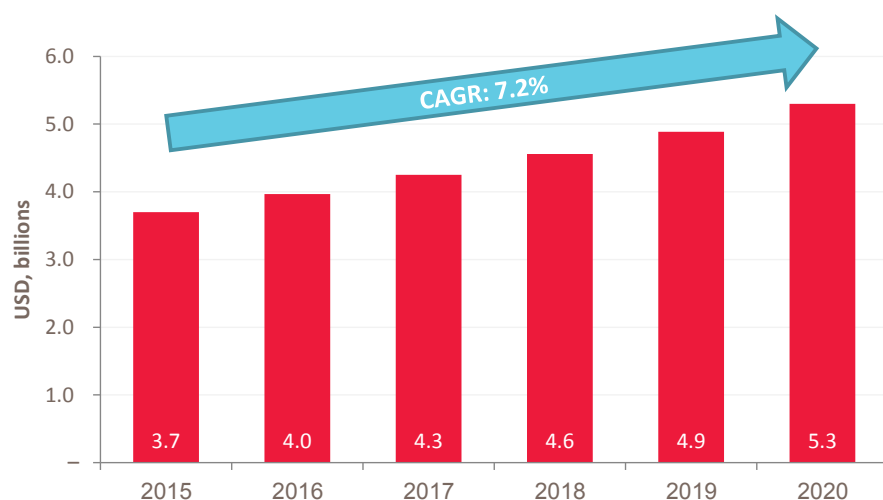
⁶ Markets and Markets>

Industry Analysis

The Obstructive Sleep Apnea Treatment Market (Continued)

The rest of the world region is projected to maintain its growth as public awareness of snoring and its negative side effects are currently limited, and are often not regarded as life-threatening.

The following chart shows the projected size of the global OSA treatment market between 2015 and 2020:



Source: Markets and Markets.

Competition

Major companies that manufacture or market snoring and OSA treatment products include:

ResMed- A NYSE traded company with 4,000 employees and presence in more than 100 countries, this company is leading the efforts to develop and distribute treatments for sleep-disordered breathing, for more than 25 years.

GlaxoSmithKline (GSK)- A NYSE traded company, GSK is a healthcare company that researches and develops pharmaceuticals, vaccines and consumer healthcare products. The company distributes various snoring treatment solutions, including Breathe Right nasal strips.

CareFusion- the company employs 16,650 workers worldwide. Among other solutions, the company distributes various products for the treatment of sleeping disorders.

Devilbiss Healthcare- the company's products are distributed in more than 100 countries. It distributes various sleeping disorder treatment products such as CPAP and masks.

ATQOL- the company is distributing the Antisnor acupressure ring. The ring uses two small acupressure simulators, positioned on a nerve point underneath the left little finger and promises to help free the airways.

Omnisleep Solutions- founded in 2010, the company is focused on delivering various turnkey solutions for sleep disorders in India. Currently, the company also provides treatment solutions in the US.

Industry Analysis

Competition (Continued)

SnoreDoc- the company produces and distributes various products to treat snoring, such as SnoreStrap, a mouthpiece and the Snoring Nose Pin.

Glidewell Laboratories- the company is a leading provider of high-quality dental laboratory products and services for dental professionals in the US. The company distributes various products for the treatment of snoring and OSA, such as aveoTSD, Silent Nite sl, Tap and EMA.

MPowRx Health and Wellness Products- the company distributes the MPowRX tongue retention device for the treatment of sleep disordered breathing conditions.

Omega Pharma- recently acquired by Perrigo Company plc, the company markets various over the counter health and personal care products. The company distributes "Silence", an anti-snoring throat spray.

PureSleep- the company distributes a snoring treatment product in the US.

Putnam Health Co.- a British company, Putnam have been manufacturing comfort solutions for over 30 years. Some of the company's various comfort products include specialized pillows to combat OSA.

Fisher & Paykel Healthcare- the company is a leading designer, manufacturer and marketer of products and systems for use in respiratory care, acute care and treatment of OSA.

Compumedics- established in 1987, the company manufactures medical devices and is involved in the development, manufacture and commercialization of diagnostics technology for sleep, brain and ultrasonic blood-flow monitoring applications.

SomnoMed- the company is a global leader in COAT (Continuous Open Airway Therapy). It provides clinically proved diagnostic and treatment options for sleep-related breathing disorders such as OSA.

Whole You- this company is a healthcare business owned by Mitsui Chemicals corporation of Japan. The company recently entered the OSA market by acquiring Respire Medical, which distributes an OSA oral appliance in the US.



Industry Analysis

Competition (Continued)

The following table shows a summary of currently available treatments for snoring and OSA:

Product	Function	Effectiveness	Side Effects	Compliance	Price (USD)
CPAP	Applies pressured air through the mask inside the throat.	High	Movement of the jaw. Noise and disturbance to partner	~20%	600-3,000
Dental Appliance	Keeps tongue retained.	N/A	Damages and brings to a permanent change in the jaw, teeth and moith position; saliva buildup and nausea.	N/A	50-2,000
Surgery	Removs tonsil adenoids to excess tissue or reconstructs the jaw to enlarge the upper airway.	up to 36 months	Possible complicatins, infection and pain	N/A	1,500-3,500
Hand Devices	Sends electrical shocks according to detection of noise.	Low	Disturbance to partner	Full within the first night	20-150
Nasal Valve Dilators	Decrease nasal resistance.	Low, as it helps with the least common type of snoring	N/A	Medium-low	20
Snoring Care	Detects snoring and breathing patterns, sends biofeedback to open airway.	High	None	95% (estimation)	900

Source: the Company's management.

Section 3

Valuation Methodology

Valuation Methodology

Background

The generally accepted approaches to valuation are commonly referred to as the following:

- Market approach;
- Asset-based approach; and
- Income approach.

Within each category, a variety of methodologies exist to assist in the estimation of fair value. The following sections contain a brief overview of the theoretical basis of each approach, as well as a discussion of the specific methodologies relevant to the analyses performed.

Market Approach

The market approach references actual transactions in the equity of the enterprise being valued or actual transactions in similar enterprises that are traded in the public markets. Third-party transactions in the equity of an enterprise generally represent the best estimate of fair market value if they are done at arm's length. There are two primary methods for using transactions from similar enterprises: the "Guideline Transactions Method" and the "Guideline Public Company Method", both involve deriving valuation multiples from publicly traded entities as a starting point to valuing the enterprise.

Asset-Based Approach

A second approach to the valuation, the discrete valuation of an asset using an asset-based approach is based upon the concept of replacement as an indicator of value. A prudent investor would be willing to pay for an asset no more than the amount for which he or she could replace the asset new. This approach establishes value based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional obsolescence, if present and measurable.

Income Approach

The income approach is based on the premise that the value of a security or asset is the present value of the future earning capacity that is available for distribution to investors holding the security or asset. A commonly used methodology under the income approach is a discounted cash flow analysis. A discounted cash flow analysis involves forecasting the appropriate cash flow stream over an appropriate period and then discounting it back to a present value at an appropriate discount rate. This discount rate should consider the time value of money, inflation, and the risk inherent in ownership of the asset or security interest being valued.

Selected Valuation Approach

Given the nature of the Company's operations, we find that the value of its stockholders' equity should be determined by the Income Approach.

Section 4

Indicative Valuation Analysis

Indicative Valuation Analysis

General

In this section we present the valuation we performed according to the income approach, using the Discounted Cash Flows (DCF) method. We built a detailed cash flow projection based on the Company's forecasts for the coming years, our independent market analysis and on other data provided by the Company's management. The cash flows were then discounted using the appropriate discount rate.

According to common practice, valuation using discounted cash flows should be based on a 5-year cash flow forecast. Since the Company's snoring and apnea treatments are young and projected to grow significantly in the upcoming years, we decided to extend the Company's forecast we received until 2023, for another 3 years, reaching an 8-year forecast (hereinafter: "the Forecast Period"), setting terminal year to be 2023, discounting all periods thereafter at a long-term growth rate of 2% (hereinafter: "Terminal Year"). During the Forecast Period, the annual growth in revenue will gradually decrease towards the customary long-term rate reached in the terminal year.

In order to determine the present value of the projected cash flow, we used industry-acceptable discount rates, based on quantitative research. A summary of the methodology used to derive the appropriate discount factor is presented hereunder.

Projected Revenue

As mentioned hereinabove, the Company will generate revenue by selling its Snoring Care and Night Watch products all over the world. Products will be shipped internationally from the Company's planned logistics centers in the US and Israel.

The Company will manufacture its products in Israel, investing directly in local assembly lines and contracting sub-contractors for turnkey assembly of its products. The products will then be sold worldwide, mainly using on-line advertising such as Google Adwords. Furthermore, the Company will offer after-sale support for its sold products.

Basic Assumptions

The Company's projected revenue was derived based upon several basic assumptions regarding production cost per unit, sale price and proportion of revenue from the US and the RoW.

The following table presents the basic assumptions used in the revenue projection:

Product prices (USD) and Revenue Proportion (%)	
Snoring treatment internet sale price	149
Chest Strip internet sale price (light apnea)	399
Watch internet sale price (fierce apnea)	799
US revenue %	60%
Rest of World revenue %	40%

Source: the Company's management.

Indicative Valuation Analysis

Projected Revenue (Continued)

United States Revenue

Our production model was based on the United States, as it is projected to be the Company's main market with 60% of units sold there (and revenue). Therefore, the rest of the world was assumed to comprise 40% of the Company's revenue.

The following table summarizes the Company's sold units in the US during the Forecast Period:

USD, thousands	2016	2017	2018	2019	2020	2021	2022	Terminal
								2023
United States - Units Sold								
Snoring treatment (units)	-	12,600	27,720	56,826	102,287	153,430	176,445	179,974
% growth			120%	105%	80%	50%	15%	2%
Light sleep apnea (units)	-	8,100	16,605	32,380	53,427	69,455	79,873	81,470
% growth			105%	95%	65%	30%	15%	2%
Fierce sleep apnea (units)	-	5,400	11,070	21,587	35,618	46,303	53,248	54,313
% growth			105%	95%	65%	30%	15%	2%
Total US units sold	-	26,100	55,395	110,792	191,331	269,188	309,566	315,757
US revenue	-	9,424	19,601	38,634	65,017	87,570	100,705	102,719
% growth			108%	97%	68%	35%	15%	2%

It is visible that the Company's snoring treatment is projected to show stronger growth than the sleep apnea products, as its price is projected to be lower and the market for snoring treatment products is estimated to be larger. The Company is projected to sell about 300,000 units in 2023 and generate about USD 100 million in the US.

Rest of World Revenue

Comprising 40% of the Company's sold products, clients from all over the world will have the option to buy and receive the products via courier or from a local retailer.

The following table summarizes the Company's sold units in the RoW during the Forecast Period:

USD, thousands	2016	2017	2018	2019	2020	2021	2022	Terminal
								2023
Rest of World - Units Sold								
Snoring treatment (units)	-	8,400	18,060	37,926	68,267	102,400	117,760	120,115
% growth			115%	110%	80%	50%	15%	2%
Light sleep apnea (units)	-	5,400	10,260	19,494	32,165	41,815	48,087	49,049
% growth			90%	90%	65%	30%	15%	2%
Fierce sleep apnea (units)	-	3,600	6,840	12,996	21,443	27,876	32,058	32,699
% growth			90%	90%	65%	30%	15%	2%
Total RoW units sold	-	17,400	35,160	70,416	121,875	172,091	197,905	201,863
RoW revenue	-	6,283	12,250	23,813	40,139	54,215	62,347	63,594
% growth			0%	95%	94%	69%	35%	15%

Similar to the US, the Company's snoring treatment segment is projected to grow faster than the apnea segment in the rest of the world. The Company is projected to sell about 200,000 units in 2023 and generate about USD 60 million in the RoW.

Indicative Valuation Analysis

Projected Revenue (Continued)

Total Revenue

In total, the Company is projected to grow at a CAGR of 47% during the Forecast Period, reaching 500,000 units sold worldwide and generating about USD 160 million in revenue:

USD, thousands	2016	2017	2018	2019	2020	2021	2022	Terminal 2023
Total units sold	-	43,500	87,900	176,040	304,688	430,228	494,762	504,658
Total Revenue	-	15,707	30,625	59,532	100,347	135,537	155,868	158,985
% growth			95%	94%	69%	35%	15%	2%

The Company's revenue shows strong growth between 2017 and 2020, gradually decreasing in growth rates towards a terminal value of 2% from 2023 onwards.

Cost of Goods Sold

The Company's COGS is comprised of product manufacturing, logistics and handling, after-sale support and renovation cost.

Manufacturing Costs

The Company will contract sub-contractors to assemble its products on a turnkey basis, costing it USD 30 and 150 per unit:

Production Costs (USD)	2017
Chest Strip production cost	30
Watch production cost	150

Source: the Company's management.

The Company will invest in assembly lines in Israel, while the sub-contractors will provide all other services and provide the Company with finished products.

Indicative Valuation Analysis

Cost of Goods Sold (Continued)

Logistics and Handling Costs

The logistics and handling costs include employee costs, together with other costs which will be incurred by the Company in the process of handling and shipping its products. The following table summarizes the Company's logistics and handling costs during the Forecast Period:

Logistics and Handling Costs (USD, thousands)	2016	2017	2018	2019	2020	2021	2022	2023
Employees US	-	-	10	10	15	15	20	20
Annual salary US	-	-	15.08	15.08	15.08	15.08	15.08	15.08
Units sold per US logistics employee per year	-	-	5,274	10,562	12,188	17,209	14,843	15,140
Employees IL	-	-	10	10	10	15	15	15
Annual salary IL	-	-	12.0	12.0	12.0	12.0	12.0	12.0
Units sold per RoW logistics employee per year	-	-	3,516	7,042	12,188	11,473	13,194	13,458
Total logistics employee costs	-	-	271	271	346	406	482	482
Other shipping and handling costs per unit (USD)	-	1	1	1	1	1	1	1
Shipping and handling costs (USD, thousands)	-	44	88	176	305	430	495	505
Total logistics and handling costs	-	44	359	447	651	836	976	986

It is visible that the Company will begin the operations of its US and Israeli logistics centers in 2018, as the volumes of its sold units are projected to show strong growth. Each center will begin operations by employing 10 people, gradually increasing in capacity as unit shipments increase.

Indicative Valuation Analysis

Cost of Goods Sold (Continued)

After-Sale Support Costs

The Company will offer after-sale support to its customers. These costs include all payments to employees responsible for providing after-sale support via telephone in various languages. The Company expects that around 50% of its clients will call its customer support and request remote assistance for using the products.

The following tables summarize the Company's after-sale support costs during the Forecast Period:

After Sale Support Employee Analysis (USD, thousands)	2016	2017	2018	2019	2020	2021	2022	2023
Total calls per month	-	1,813	3,663	7,335	12,695	17,926	20,615	21,027
Calls to sold units	-	5.1%	4.5%	4.2%	4.2%	4.2%	4.2%	4.2%
Total calls per support employee per month	-	604	610	611	635	640	644	657
After sale support employees	-	3	6	12	20	28	32	32
After sale support employee annual salary	-	84	84	84	84	84	84	84
Total after sale support employees cost	-	252	504	1,008	1,680	2,352	2,688	2,688

After Sale Support Employee Statistics

Calls per employee per shift	30
Working days per month	22
Calls- capacity per employee per month	660
Of customers call after-sale support, out of total units sold (snoring)	50%
Of customers call after-sale support, out of total units sold (light sleep apnea)	50%
Of customers call after-sale support, out of total units sold (fierce sleep apnea)	50%

It is visible that the Company expects to process around 20,000 customer calls per month in the years 2022-2023.

Indicative Valuation Analysis

Cost of Goods Sold (Continued)

Renovation Costs

The Company will accept returns of its sold products, renovate the received units and re-sell them as new, saving otherwise required investments in more assembly lines. The Company assumes that 25% of all units sold will return, costing it USD 65 per unit to renovate and process towards re-selling. The following table summarizes the Company's renovation costs during the Forecast Period:

Renovation Analysis (units)	2016	2017	2018	2019	2020	2021	2022	2023
Ratio of returned units	-	25%	25%	25%	25%	25%	25%	25%
Global returns of snore treatment	-	5,250	11,288	23,704	42,667	64,000	73,600	75,072
Global returns of light apnea treatment	-	3,375	6,413	12,184	20,103	26,134	30,054	30,655
Global returns of fierce apnea treatment	-	2,250	4,275	8,123	13,402	17,423	20,036	20,437
Total amount of returns- global (units)	-	10,875	21,975	44,010	76,172	107,557	123,691	126,164
Renovation cost per unit (USD)	-	65	65	65	65	65	65	65
Total renovation cost (USD, thousands)	-	707	1,428	2,861	4,951	6,991	8,040	8,201

It is visible that under the aforementioned assumptions, the Company's renovation costs are projected to reach around USD 8 million in the years 2022-2023.

Indicative Valuation Analysis

Cost of Goods Sold (Continued)

In total, the Company's COGS are projected to reach about 16% of revenue during the Forecast Period, gradually increasing as more units are produced.

The following table summarizes the Company's projected COGS during the Forecast Period:

USD, thousands	2016	2017	2018	2019	2020	2021	2022	Terminal 2023
COGS								
Manufacturing	-	2,385	4,689	9,180	15,574	21,270	24,460	24,949
Logistics and handling	-	44	359	447	651	836	976	986
After Sale Support	-	252	504	1,008	1,680	2,352	2,688	2,688
Renovation cost	-	707	1,428	2,861	4,951	6,991	8,040	8,201
COGS	-	3,387	6,980	13,495	22,856	31,449	36,164	36,824
% of revenue		15%	15%	15%	16%	16%	16%	16%

Gross Profit

The following table summarizes the Company's projected gross profit during the Forecast Period:

USD, thousands	2016	2017	2018	2019	2020	2021	2022	Terminal 2023
Gross profit	-	12,319	23,645	46,037	77,492	104,088	119,703	122,161
% of revenue		78%	77%	77%	77%	77%	77%	77%

It is visible that the gross profit margin is projected to remain stable during the Forecast Period, remaining at around 77% of revenue.

Operating Expenses

Sales and Marketing Expenses

The Company's S&M costs include Google Adwords, other internet promotion, other media expenses, articles & conferences and salespersons.

The following table summarizes the basic assumptions which formed the basis of the Company's Google Adwords budget:

Various Costs and Prices

Advertisement cost per unit (USD)	50
Internet promotion- % of Google Adwords	30%

The Company expects to spend about USD 50 per unit sold through Google Adwords, and around 30% of the entire Adwords budget for other forms of internet advertisements. Furthermore, the media budget was estimated as 4% of revenue.

Salespersons' costs were estimated on a monthly basis according to the following assumptions:

Salespersons Assumptions

% European salespersons of US salespersons	67%
% RoW salespersons of Europe salespersons	50%
Normal sales multiplier	15
Annual Travel budget per salesperson (USD, thousands)	24

Indicative Valuation Analysis

Operating Expenses (Continued)

Based on the aforementioned assumptions, the following table summarizes the expected salespersons' headcount at the end of each year between 2016 and 2020:

Salespersons Analysis	2016	2017	2018	2019	2020
<u>Salespersons</u>					
Salespersons in the US	-	1	3	5	11
% European salespersons of US salespersons	67%	67%	67%	67%	67%
Salespersons in Europe	-	1	2	3	7
% RoW salespersons of Europe salespersons	50%	50%	50%	50%	50%
Salespersons in RoW	-	0	1	2	4
Total Salespersons	-	2	6	10	22

The salespersons' cost for the years 2021-2023 was estimated based upon a projected expense of 2.9% of revenue.

The aforementioned headcount was calculated from the Company's projected revenue, using the basic assumption that each salesperson is expected to generate sales which are 15 times larger than his salary. A salesperson will be recruited once existing salespersons exceed this ratio, in order to retain efficiency.

Each salesperson will be entitled to an annual travel budget of USD 24,000 in order to generate revenue in his geographical area.

The salespersons' salaries and travel budget were added on a monthly basis to reach an annual expense.

The following table summarizes the Company's S&M expenses during the Forecast Period:

USD, thousands	2016	2017	2018	2019	2020	2021	2022	Terminal 2023
<u>S&M expenses</u>								
Google Adwords	-	2,175	4,395	8,802	15,234	21,511	24,738	25,233
% of revenue	-	14%	14.4%	14.8%	15.2%	15.9%	15.9%	15.9%
Internet promotion	-	653	1,319	2,641	4,570	6,453	7,421	7,570
% of revenue	-	4%	4%	4%	5%	5%	5%	5%
Media budget	-	628	1,225	2,381	4,014	5,421	6,235	6,359
% of revenue	-	4%	4%	4%	4%	4%	4%	4%
Professional articles	-	60	60	60	60	60	60	60
Conferences	-	36	36	36	36	36	36	36
Salespersons	-	240	671	1,488	2,912	3,933	4,523	4,614
% of revenue	-	1.5%	2.2%	2.5%	2.9%	2.9%	2.9%	2.9%
S&M expenses	-	3,792	7,705	15,408	26,827	37,416	43,013	43,872
% of revenue		24%	25%	26%	27%	28%	28%	28%

It is visible that the Company's S&M expenses are projected to reach 28% of revenue or USD 43 million in the Terminal year.

Indicative Valuation Analysis

Operating Expenses (Continued)

General and Administrative Expenses

The Company's G&A costs include executives' salaries, legal & accounting, office rent, municipal costs, HR and other expenses.

All expenses other than office rent were assumed at reasonable amounts. Office rent includes management offices, after-sale support employees' offices, salespersons offices in various geographies, and the R&D team's offices. The following table summarizes the projected office rent expenses during the Forecast Period:

	2016	2017	2018	2019	2020	2021	2022	Terminal 2023
Office Rent Analysis								
Management offices	50	180	180	180	180	180	180	180
<u>After sale support employees offices</u>								
Square meters per employee	12	12	12	12	12	12	12	12
Total meters for after sale support employees	-	36	72	144	240	336	384	384
Rent per square meter per month, Israel (USD)	25	25	25	25	25	25	25	25
Total annual cost for after sale support employees office rent (USD, thousands)	-	11	22	43	72	101	115	115
<u>Salespersons offices</u>								
US (Square meters)	-	12	30	48	108	147	160	158
% of total units manufactured	-	0.03%	0.04%	0.03%	0.04%	0.04%	0.04%	0.04%
Europe (Square meters)	-	12	24	36	78	106	116	114
% of total units manufactured	-	0.03%	0.03%	0.02%	0.03%	0.03%	0.03%	0.03%
RoW (Square meters)	-	-	12	18	36	49	53	53
% of total units manufactured	-	0.00%	0.02%	0.01%	0.01%	0.01%	0.01%	0.01%
Total salespersons offices (square meters)	-	24	66	102	222	302	330	324
Indicative rent per square meter per month (USD)	25	25	25	25	25	25	25	25
Total annual rent cost for salespersons (USD, thousands)	-	7	20	31	67	90	99	97
<u>R&D team offices</u>								
Size- square meters	30	30	30	30	30	30	30	30
Rent per meter per month, Israel (USD)	25	25	25	25	25	25	25	25
Total annual cost for R&D office rent (USD, thousands)	9	9	9	9	9	9	9	9
Total annual rent expense (USD, thousands)	59	207	230	263	328	380	403	402

Indicative Valuation Analysis

Operating Expenses (Continued)

Management offices' costs were projected by the Company, while after-sale support employees' office costs were calculated by multiplying the amount of employees in every geography (the US, Europe and RoW which will be located in Israel) at a reasonable 12 square meters per employee.

Monthly rent per square meter was assumed as USD 25 for all geographies. The R&D team's offices were assumed as 30 square meters. The rents for each group were summed and entered into the G&A expenses.



Indicative Valuation Analysis

Operating Expenses (Continued)

The following table summarizes the Company's projected G&A expenses during the Forecast Period:

USD, thousands	2016	2017	2018	2019	2020	2021	Terminal	
							2022	2023
G&A expenses								
CEO Salary	60	120	180	240	300	405	466	475
% of revenue	-	0.76%	0.59%	0.40%	0.30%	0.30%	0.30%	0.30%
Directors' salaries	33	180	180	180	180	243	280	285
% of revenue	-	1.15%	0.59%	0.30%	0.18%	0.18%	0.18%	0.18%
Finance manager	-	108	180	300	420	567	652	665
% of revenue	-	0.69%	0.59%	0.50%	0.42%	0.42%	0.42%	0.42%
Legal	-	120	480	600	720	678	779	795
% of revenue	-	0.76%	1.57%	1.01%	0.60%	0.50%	0.50%	0.50%
Accounting	-	36	144	216	240	324	373	380
% of revenue	-	0.23%	0.47%	0.36%	0.24%	0.24%	0.24%	0.24%
Office Rent	59	207	230	263	328	380	403	411
% of revenue	-	1.32%	0.75%	0.44%	0.33%	0.33%	0.33%	0.26%
Municipal, water, electricity, telephone costs	32	60	120	180	240	407	468	477
% of revenue	-	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%
HR	-	240	480	600	720	972	1,118	1,141
% of revenue	-	1.53%	1.57%	1.01%	0.72%	0.72%	0.72%	0.72%
Other expenses	-	942	1,837	3,572	6,021	8,132	9,352	9,539
% of revenue	-	6%	6%	6%	6%	6%	6%	6%
G&A expenses	234	2,193	4,012	6,331	9,348	12,289	14,071	14,349
% of revenue		14%	13%	11%	9%	9%	9%	9%

It is visible that the Company's G&A expenses are projected to be 9% of revenue in the years 2020-2023, and reach around USD 14 million in 2023.

Indicative Valuation Analysis

Operating Expenses (Continued)

Research and Development Expenses

The Company's R&D expenses include research efforts and FDA, clinical trials and regulation expenses.

The research efforts were assumed to cost around USD 360,000 each year between 2016 and 2018, doubling to USD 720,000 in 2019 as the Company seeks to strengthen its competitive advantage. By 2022, the research effort expenses will increase to 1.5% of revenue and remain so thereafter.

FDA, clinical trials and regulation expenses will be USD 600,000 in each year of 2017 and 2018, as the Company will seek to comply with relevant regulation in its target markets.

The following table summarizes the Company's projected R&D expenses during the Forecast Period:

								Terminal
USD, thousands	2016	2017	2018	2019	2020	2021	2022	2023
R&D expenses								
Research efforts	360	360	360	720	1,305	1,898	2,338	2,385
% of revenue		2.29%	1.18%	1.21%	1.30%	1.40%	1.50%	1.50%
FDA, clinical trials and regulation	-	600	600	-	-	-	-	-
R&D expenses	360	960	960	720	1,305	1,898	2,338	2,385
% of revenue		6.1%	3.1%	1.2%	1.3%	1.4%	1.5%	1.5%

Total Operating Expenses

The Company's operating expenses are projected to reach 38% of revenue by 2021, remaining so thereafter. The following table summarizes the Company's projected operating expenses during the Forecast Period:

								Terminal
USD, thousands	2016	2017	2018	2019	2020	2021	2022	2023
Total operating expenses	594	6,945	12,677	22,459	37,480	51,602	59,423	60,606
% of revenue		44%	41%	38%	37%	38%	38%	38%

Operating Income

The Company's operating income is projected to reach 39% of revenue by 2021, remaining so thereafter. The following table summarizes the Company's projected operating income during the Forecast Period:

								Terminal
USD, thousands	2016	2017	2018	2019	2020	2021	2022	2023
Operating income	(594)	8,761	10,967	23,578	40,012	52,486	60,281	61,555
% of revenue		56%	36%	40%	40%	39%	39%	39%

Indicative Valuation Analysis

Tax

The Company will conduct the majority of its operations in Israel and found its headquarters in a national preference land, enjoying low tax on income. Therefore, the tax rate applicable for the Company's income was assumed to be 26.5%- the Israeli corporate tax rate⁷.

The following chart summarizes the projected tax on the Company's taxable income during the Forecast Period:

USD, thousands	2016	2017	2018	2019	2020	2021	2022	Terminal 2023
Tax on income	-	2,164	2,906	6,248	10,603	13,909	15,974	16,312
Operating income after tax	(594)	6,597	8,061	17,330	29,409	38,577	44,306	45,243
% of revenue		42%	26%	29%	29%	28%	28%	28%



⁷ Corporate tax rate is planned to be lowered to 25%, as of writing this document.

Indicative Valuation Analysis

Cash Flow Adjustments

Capital Expenses

As mentioned hereinabove, the Company will invest in assembly lines in Israel, which will be operated by sub-contractors. Therefore, the investment in assembly lines will be borne by the Company, granting it ownership of the equipment. Furthermore, the Company will create two logistics centers: in the US and in Israel, in order to support its growing activity in the US and abroad.

Each assembly line is projected to cost USD 500,000 and have the capacity of 120,000 units every year. Based upon these assumptions and the projected units sold, we calculated the projected CAPEX the Company will need to invest during the Forecast Period, as visible in the following table:

Production Analysis (units)	2016	2017	2018	2019	2020	2021	2022	2023
Total production- snore treatment	-	21,000	39,900	83,528	146,963	213,334	230,400	226,688
Total production- light apnea treatment	-	13,500	22,275	42,323	68,229	84,433	94,083	92,567
Total production- fierce apnea treatment	-	9,000	14,850	28,215	45,486	56,289	62,722	61,711
Total production- all units	-	43,500	77,025	154,065	260,678	354,056	387,205	380,967
New annual production (units)	-	43,500	33,525	77,040	106,613	93,378	33,149	(6,238)
Assembly line produces X units	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Number of assembly lines required	-	1	1	2	3	3	4	4
Production capacity	-	120,000	120,000	240,000	360,000	360,000	480,000	480,000
Assembly line utilization	-	36%	64%	64%	72%	98%	81%	79%
Required CAPEX in assembly lines per 120,000 units (USD)	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Required CAPEX in assembly lines per year (USD)	-	500,000	-	500,000	500,000	-	500,000	-
Annual upkeep cost	-	-	40,000	40,000	80,000	120,000	120,000	160,000
Total assembly lines CAPEX	-	500,000	40,000	540,000	580,000	120,000	620,000	160,000
Calls- capacity per employee per month		3.2%	0.1%	0.9%	0.6%	0.1%	0.4%	0.1%

The Company will invest in new assembly lines as needed, while paying an estimated annual amount of USD 40,000 per assembly line for upkeep.

Indicative Valuation Analysis

Cash Flow Adjustments (Continued)

As mentioned hereinabove, in addition to its investment in assembly lines, the Company will create two logistics centers, in the US and Israel. The cost of each center was estimated as USD 2 million. The centers are projected to be built in 2018, when sold units reach significant levels both in the US and abroad.

Each logistics center is projected to require USD 133 thousands in upkeep, based upon an estimated 15 years duration of use.

The following chart summarized the Company's projected CAPEX for creating the logistics centers, during the Forecast Period:

Logistics Centers CAPEX (USD, thousands)	2016	2017	2018	2019	2020	2021	2022	2023
United States	-	-	2,000	133	133	133	133	133
Israel	-	-	2,000	133	133	133	133	133
Total	-	-	4,000	267	267	267	267	267

Depreciation

The Company's depreciation expenses were estimated based upon an estimated 12.5 years duration of use for the assembly lines, and 15 years for the logistics centers. The following table summarizes the Company's projected depreciation expense during the Forecast Period:

Depreciation Analysis (USD, thousands)	2016	2017	2018	2019	2020	2021	2022	2023
Assembly lines creation	-	-	40	80	120	120	160	160
Assembly lines upkeep depreciation	-	-	3	6	13	22	32	45
Logistics centers creation	-	-	267	267	267	267	267	267
Logistics centers upkeep depreciation	-	-	-	18	36	53	71	89
Total	-	-	310	371	435	462	530	560

Indicative Valuation Analysis

Cash Flow Adjustments (Continued)

Investment in Working Capital

The Company's projected investment in working capital was estimated based on the assumption of 15 Customer Days and 45 Supplier Days, as target customers will mostly pay using a credit card. The following table summarizes the Company's projected investment in working capital during the Forecast Period:

Working Capital	2016	2017	2018	2019	2020	2021	Terminal	
							2022	2023
Revenue	-	15,707	30,625	59,532	100,347	135,537	155,868	158,985
COGS	-	2,385	4,689	9,180	15,574	21,270	24,460	24,949
Trade Receivables	-	645	1,258	2,445	4,121	5,566	6,401	6,529
Trade Payables	-	294	578	1,131	1,919	2,621	3,014	3,074
Total Working Capital	-	351	680	1,314	2,202	2,946	3,388	3,455
Change	-	351	329	634	888	743	442	68
% Trade Receivables	-	-	4%	4%	4%	4%	4%	4%
% Trade Payables	-	-	2%	2%	2%	2%	2%	2%

Cash Flow Adjustments- Summary

The following table summarizes the Company's cash flow adjustments and net cash flow, which will then be discounted using the WACC, during the Forecast Period:

USD, thousands	2016	2017	2018	2019	2020	2021	Terminal	
							2022	2023
<u>Cash Flow Adjustments</u>								
CAPEX	-	500	4,040	807	847	387	887	427
Depreciation	-	-	310	371	435	462	530	560
Investment in Working Capital	-	351	329	634	888	743	442	68
Net Cash Flow	(594)	5,746	4,002	16,260	28,109	37,909	43,508	45,309
% of revenue		37%	13%	27%	28%	28%	28%	28%

Indicative Valuation Analysis

Net Cash Flow

The following table summarizes the Company's projected net cash flow model:

USD, thousands	2016	2017	2018	2019	2020	2021	2022	Terminal 2023
US revenue	-	9,424	18,375	35,719	60,208	81,322	93,521	95,391
% growth			95%	94%	69%	35%	15%	2%
RoW revenue	-	6,283	12,250	23,813	40,139	54,215	62,347	63,594
% growth			95%	94%	69%	35%	15%	2%
Total Revenue	-	15,707	30,625	59,532	100,347	135,537	155,868	158,985
% growth			95%	94%	69%	35%	15%	2%
COGS	-	3,387	6,980	13,495	22,856	31,449	36,164	36,824
% of revenue		15%	15%	15%	16%	16%	16%	16%
Gross profit	-	12,319	23,645	46,037	77,492	104,088	119,703	122,161
% of revenue		78%	77%	77%	77%	77%	77%	77%
S&M expenses	-	3,792	7,705	15,408	26,827	37,416	43,013	43,872
% of revenue		24%	25%	26%	27%	28%	28%	28%
G&A expenses	234	2,193	4,012	6,331	9,348	12,289	14,071	14,349
% of revenue		14%	13%	11%	9%	9%	9%	9%
R&D expenses	360	960	960	720	1,305	1,898	2,338	2,385
% of revenue		6.1%	3.1%	1.2%	1.3%	1.4%	1.5%	1.5%
Total operating expenses	594	6,945	12,677	22,459	37,480	51,602	59,423	60,606
% of revenue		44%	41%	38%	37%	38%	38%	38%
Operating income	(594)	8,761	10,967	23,578	40,012	52,486	60,281	61,555
% of revenue		56%	36%	40%	40%	39%	39%	39%
Tax on income	-	2,164	2,906	6,248	10,603	13,909	15,974	16,312
Operating income after tax	(594)	6,597	8,061	17,330	29,409	38,577	44,306	45,243
% of revenue		42%	26%	29%	29%	28%	28%	28%
<u>Cash Flow Adjustments</u>								
CAPEX	-	500	4,040	807	847	387	887	427
Depreciation	-	-	310	371	435	462	530	560
Investment in Working Capital	-	351	329	634	888	743	442	68
Net Cash Flow	(594)	5,746	4,002	16,260	28,109	37,909	43,508	45,309

Indicative Valuation Analysis

WACC

AICPA's Practice Aid - Valuation of Privately Held Company Equity Securities Issued as Compensation - 2011

As a guideline for the appropriate discount factor used to value young companies found at various stages of development, it is customary to use industry accepted figures, based upon past statistics.

Following is a table summarizing the rates of returns commanded by venture capital investors at various stages of an entity's development, according to the AICPA's Practice Aid - Valuation of Privately Held Company Equity Securities Issued as Compensation:

Stage of Development	Plummer ¹	Scherlis & Sahlman ²	Sahlman, Stivenson & Bhide ³
Start-up	50%-70%	50%-70%	50%-100%
first stage or "Early Development"	40%-60%	40%-60%	40%-60%
Second stage or "Expansion"	35%-50%	30%-50%	30%-40%
Bridge/IPO	25%-35%	20%-35%	20%-30%

1. James L. Plummer, QED Report on Venture Capital Financial Analysis (Palo Alto: QED Research, Inc., 1987).
2. Daniel R. Scherlis and William A. Sahlman, "A Method for Valuing High-Risk, Long Term, Investments: The Venture Capital Method," Harvard Business School Teaching Note 9-288-006 (Boston: Harvard Business School Publishing, 1989).

3. William A. Sahlman, Howard H. Stevenson, Amar V. Bhide, et al., "Financing Entrepreneurial Ventures," Business Fundamental Series (Boston: Harvard Business School Publishing, 1998).

Since the development of the Company's products has been completed, but it has not yet started gaining significant revenue, Nexense's stage of development can be paralleled to an "Expansion" stage.

Nexense is a technology pioneer in a high potential market, which is expected to show significant growth in the coming years. **Therefore, we find it reasonable for the Company's discount rate (30%) to be at the bottom of the Expansion segment.**

Indicative Valuation Analysis

WACC

When applying the Income Approach, the cash flows expected to be generated by a business are discounted to their present value equivalent using a rate of return that reflects the relative risk of the investment, as well as the time value of money

This return, known as the weighted average cost of capital (“WACC”) is calculated by weighting the required returns on interest-bearing debt and common equity capital in proportion to their estimated percentages in an expected industry capital structure.

The general formula for calculating the WACC is:

$WACC = Kd (D\%) + Ke (E\%)$, where:

WACC= Weighted average rate of return on invested capital;

Kd= After-tax rate of return on debt capital;

D%= Debt capital as a percentage of the sum of the debt, preferred and common equity capital (“Total Invested Capital”);

Ke= Rate of return on common equity capital; and

E%= Common equity capital as a percentage of the Total Invested Capital.

CAPM has been empirically tested and is widely accepted for the purpose of estimating a company’s required return on capital. In applying the CAPM, the rate of return on capital is estimated as the current risk-free rate of

return on Israeli Governmental bonds, plus a market risk premium expected over the risk-free rate of return, multiplied by the “beta” for the valued company. Beta is defined as a risk measure that reflects the sensitivity of a company’s stock (or capital) price to the movements of the stock market as a whole.

The CAPM rate of return on capital is calculated using the following formula:

The CAPM rate of return on capital is calculated using the following formula:

$Ke = Rf + \beta(Rm - Rf) + SCP + Sp$ Where;

Ke= Rate of return on capital (in this case, Total Invested Capital);

Rf= Risk free rate of return;

B= Beta or systematic risk for this type of capital investment (in this case, asset beta);

In order to calculate the beta we based on Damodaran's data on companies, operating in the drug market.

Rm - Rf= Market risk premium; the expected return on a broad portfolio of stocks in the market (Rm) less the risk free rate (Rf);

SRP Small cap premium - Ibbotson valuation edition 2013 yearbook;

SCP Specific Premium;

Since most innovative young companies are unlevered, the Company's representative debt ratio was determined to be 0%.

Indicative Valuation Analysis

WACC

The following table shows the parameters that served for the calculation of the Company's WACC:

Parameter	Symbolization	Value	Source
Debt	D	0%	
Equity	E	100%	
Cost of Debt	Kd	-	i.r
1 - Tax Rate	1-T	73.5%	Israel Corporate tax rate
Beta	B	0.81	Comparable Companies and Damodaran
Rf	Rf	1.44%	Israeli index-linked treasury bonds yield for 15 years (Source: Bloomberg)
Market Premium	Rm-Rf	6.7%	Damodaran: average of North America, Western Europe Asia and Middle East
Small Company Premium	SRP	12.06%	Ibbotson valuation edition 2013 yearbook
Specific Risk Premium	SCP	11.00%	Specific Risk Premium
Cost of Equity	Ke	29.9%	$Rf + B*(Rm-Rf)+SRP$
	WACC	30%	$(D/V)(1-T)*Kd + (E/V)*Ke$

According to our analysis and the AICPA's Practice Aid, the appropriate discount rate for the Company's activity should be approximately 30%.

Indicative Valuation Analysis

Indicative Valuation Summary

The following table presents the Company's value:

USD, thousands	Value
DCF Forecast Years	32,816
Terminal Value	25,788
Total	58,604
Financial Assets (Liabilities)	-
Company Value	58,604

The Company's indicative fair value is approximately USD 58 million.

The following chart shows the sensitivity analysis of Company's indicative value, with relation to its WACC and long-term growth rate:

		WACC				
		20%	25%	30%	35%	40%
G	1.0%	116,339	79,775	57,715	43,396	33,608
	1.5%	118,138	80,618	58,152	43,640	33,751
	2.0%	120,036	81,497	58,604	43,891	33,898
	2.5%	122,043	82,415	59,073	44,149	34,049
	3.0%	124,169	83,375	59,559	44,416	34,204