



A2Z is a technology company operating for more than 30 years in the security sector, mainly in robotics. **The Company's leading product is a smart cart for supermarkets**, which is being tested by numerous food retail chains around the world and rolled out by the Yochananof chain in Israel. This initiation focuses on the smart carts business run by Cust2mate – a subsidiary of A2Z.

**Cust2mate Solution.** The Company's smart cart is materially different from the Self-Checkout stations, the self-service cashiers, since on top of mobility it has additional advantages, such as nullifying lines for payments and the need to take the groceries out of the cart. Cust2mate offers a unique advantage in the fruit and vegetable department: it allows weighting in the cart and an automatic identification of the item. Additionally, the cart includes an internal weight scale to prevent errors and theft, components preventing the stealing of the cart itself, navigation capabilities, advertising, payment with smart means, etc.

**Market Size.** The total addressable market is most prominently indicated by the self-service cashiers market, which is estimated at approximately \$3.5B as of 2020, after growing by approximately 25%. In 2020, approximately 180 thousand self-service cashiers were installed in chains worldwide. This market is expected to continue to grow by an average rate of 11% in the upcoming year totaling about \$6.5B by 2027. The smart carts market, which is in its infancy, is expected to eat into the better share of the self-service cashiers market.

**Online Entry Threat.** At the peak of the Covid pandemic in the US, approximately 85% of sales took place in physical stores. Even according to the most optimistic estimates in favor of the online market, expect in 10 years time, the vast majority of food retail sales shall likely occur on the sales floor.

**Improvement of Shopping Experience.** Studies show that the main reason for losing customers is a negative shopping experience, even more than price sensitivity. Furthermore, the main reason for a negative shopping experience is waiting to pay for items, significantly more than other reasons (product shortage, lack of information, etc.). Using smart carts offers a specific solution for such challenges and materially improves the shopping experience.

**Company Management.** Mr Rafi Yam, Cust2mate's CEO, was the former CEO of NCR Israel, a market leader in retail chains software systems. Mr Yam's vast experience in the retail market in general and particularly in assimilating payment systems in supermarkets, is highly significant for Cust2mate's execution. A2Z's management brings vast experience in the development and implementation of complex technology systems. In addition, many of the company's executives are ex-NCR Israel executives, highly experienced in the retail and payments market – with accumulated experience of ~500 years in retail, according to company estimates.

**Operation Status.** The company currently operates several pilots with food retail chains around the world, and received the first order for 700 carts from the Yochananof chain – the fourth largest retail chain in Israel. Note that the pilot study in Yochananof led to ordering larger carts due to a 28% increase ARPU, when using Cust2mate's smart cart.

**Material Acquisition Transaction and Indication of Operation Value.** In October 2021, Instacart – an American company specializing in online food deliveries – announced the acquisition of Caper AI, a smart cart and self-service cashiers company, for \$350m.

**Conclusion.** A2Z, through its subsidiary Cust2Mate, operates to become a global leader in the smart carts industry – a global high growth market which is estimated at \$6.5 billion by 2027. One of Cust2Mate's key advantages is the fact that its smart carts are already operational and shelf-ready, unlike most of the competitors. Its management's experience provides a significant advantage which is critical for success in the retail-software market. The company's operation model generates a high return on investment in carts, as well as wide gross and operating margins.

Data	5 April 2022
Symbol	AZ
Share price (\$)	6.1
52 weeks high share price (\$)	10.7
52 weeks low share price (\$)	4.62
Market value (\$ millions)	144.8
No. of issued shares (millions)	26.3
Average trade (3 months)	46.7
Net cash (\$ millions)	7.7
Net cash per share (\$ millions)	0.29

Income (\$ millions)			
Year	2019	2020	2021
Q1	-	0.29	0.52
Q2	-	0.23	1.40
Q3	-	0.28	0.28
Q4	-	0.26	-
Annual	1.38	1.07	-

Profit Per Share (\$)			
Year	2019	2020	2021
Q1	-	0.08	-1.31
Q2	-	-0.02	-0.2
Q3	-	-0.03	-0.07
Q4	-	-0.15	-
Annual	-0.07	-0.12	-

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**FOR ANALYST CERTIFICATION AND DISCLOSURES, PLEASE SEE DISCLOSURES SECTION AT THE END OF THIS REPORT.**

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## Investment Story

A2Z is a technology company operating for more than 30 years, mainly in the sector of robotics for security purposes. In recent years, the company began leveraging its accumulated knowledge of robotics for operation in the field of smart carts for supermarkets. The key activity of the company is in the field of food retail, led by Cust2mate, a subsidiary of A2Z. Cust2mate develops, manufactures, and markets a smart cart for shopping in supermarket stores. The smart cart enables immediate registration of the products collected by the customer while shopping, and making payments immediately without having to engage in a payment station before leaving the supermarket.

The use of the smart cart creates a rare Win-Win-Win situation for all key players in the food retail sector:

- **Consumer** – significant improvement of the shopping experience, including quick payment using the cart itself, and providing specific customer adapted information designed to lead a smarter shopping and saving experience.
- **Retailer** – long-term reduction of costs, including reducing dependence on human capital, while also influencing the income as consumers purchase more (in the pilot study executed by the company in the Yochananof chain, the average ARPU increased by approximately 28%).
- **Supplier** – real-time personalized advertising (during customer actual shopping) and receiving unique information regarding the customers' consumption habits.

### Market Size

The development potential of the smart carts sector is most prominently indicated by the market of self-service cashiers, which is estimated at approximately \$3.5B as of 2020, after growing by approximately 25%. In 2020, approximately 180 thousand self-service cashiers were installed in chains worldwide.

**The forecasted rapid growth in the smart carts market is the result of, among others:**

- **Desire to reduce the dependence on human capital.** Food retail chains are labor intensive employers, while the job characteristics and low wages in the sector present recruitment and long-term employee preservation challenges. The use of smart carts is designed to enable reassignment of employees within the chain and the opening of additional branches currently delayed due to workforce shortage.
- **Rapid ROI.** Assuming that the use of smart carts shall reduce a non-negligent number of jobs, save expensive sales space in the cashiers' region and increase purchases, as indicated by current findings, the cart purchase model reflects a highly rapid return on investment, estimated by the company to be less than one year, and the financial interest is obvious.
- **Ever Better Financial Capability.** The Covid pandemic has created high cash balances in companies and the ability to invest material cash flow in technological developments.
- **Alternative to Online Consumption.** The physical chains are seeking a technological solution to improve the shopping experience within stores, while wishing to slow down the trend of transitioning to online consumption, a trend that increases competition and decreases profitability.

## Business Development

Following a successful pilot study in the Yochananof chain, the fourth largest retail chain in Israel, the company received an order for 700 smart carts the delivery of which has started and shall be supplied during the first half of 2022. The company estimates that an additional order of the same scope during the second half of 2022 is highly probable. **The company believes that this is the first transaction in the world to execute a full distribution of smart carts to a food retail chain.**

**Additional Pilots.** Additional pilots are in the process of implementation in US and Mexican chains. The average expected duration of such a pilot is approximately two months, and the company estimates that the pilot-to-transaction conversion rate shall be approximately 50%. **The company expects to implement further pilots during 2022, with additional chains, mainly in Europe.**

## Financial Analysis

The cash balance of the company as of 3Q21 is \$8m. Concurrently, the company estimates that the current cash burnout rate is \$6m per year. Thus far, the company has been able to finance itself, mainly through capital raises, while six such raises have been executed since 2019 in the total amount of approximately \$20m in consideration of shares and options.

The operational and developmental costs amounted to approximately \$3m in 2020, and the expenses during the three first quarters of 2021 amount to approximately \$6.5m, mainly due to expanding the operation of the carts.

**The company estimates that the operational outcomes of the company are expected to significantly change in the upcoming year, given the cart sales have begun and the business model implemented by the company through this operation.**

## Business Operation Model

**Income Model** – the company's strategy is to operate a SaaS model, such that the customer's payment is executed repeatedly, and not in a one-time payment. The company includes in its agreements three types of payments to be made by the customer:

1. Initial non-recurrent payment - \$1,000-2,000 per cart.
2. Subscription throughout use - \$100-200 per cart per month.
3. Additional services – mainly data, advertising, and additional features, for an estimated amount of \$30-60 per cart per month.

**Costs Model** – in order to meet the challenge of selling the smart carts to hundreds of food chains in the world, with a wide geographic spread in a relatively short time, the company has created several strategic partnerships with local suppliers, using a model of income distribution, such that approximately one-third of which shall be transferred to the local supplier. **Thus, the company significantly shortens the time of delivery to the potential customer**, and gains access to local chains which are less known or accessible to the general market. It is important to note that with regard to the larger and more known food chains, the company intends to operate directly without any partners or middle agents.

**The company estimates that it shall grow rapidly and reach production and delivery of tens of thousands of carts annually, within a time frame of just two years.** This scenario derives a forecasted income of more than \$50 million per year, more than half of which is expected to be recurrent income.

### **Peer Buyout Valuation**

In October 2021, Instacart – an American company specializing in online food deliveries – announced the acquisition of Caper AI, a smart cart and self-service cashiers company, for \$350m. Caper AI – incorporated in 2016 and up to the date of the aforesaid sale raised an amount of just approximately \$13 million. Starting in 2020, the company has implemented three pilots with food chains, one of which is the giant American food chain Kroger, but has not begun actual deployment.

### **Risks**

The company currently operates several pilots with food retail chains around the world, and intends to significantly increase the number of such pilots with additional chains. Efficiency and effectiveness in these pilots are expected to generate actual orders from the chains. On the other hand, a failure of a large number of such pilots may damage the company's reputation and undermine the efficiency of its product.

Several companies operate in the field of smart carts or parallel fields, the majority of which are start-up companies, but there are also giant companies such as Amazon (although it is not selling its solution externally). In addition, the successful entry of the company into its target markets shall probably attract additional competitors to this field.

Currently, the company does not generate significant income. In order to lead and develop its strategic plans, it is expected to increase its sales and marketing expenses, and as orders come in, also the expenses associated with producing the carts. Therefore, the company is expected to continue to present losses which could require additional capital raises, for at least the upcoming year.

### **Conclusion**

A2Z, through its subsidiary Cust2Mate, operates in a global market expected to continue to grow by an 11% CAGR totaling ~\$6.5 billion by 2027. The company's operation model generates a considerable ROI for smart carts, as well as significant gross and operating margins.

One of Cust2Mate's key advantages is the fact that its smart carts are already operational and shelf-ready, unlike most of the competitors. In fact, the company is already implementing binding pilots which are expected to lead to orders in the near future. This, as opposed to competitors, the majority of which are still in development stages.

Furthermore, the company's management has substantial proven experience in the field of retail-software, and particularly in the field of cashiers and payments. Such experience provides a significant advantage - critical for the company's ability to execute successfully. The company is focused on becoming a global leader in the smart carts solution, while already signing significant agreements this year.

## Company Description

A2Z is a technology company operating for more than 30 years, mainly in projects and service provision for the security industry. In recent years, the company started leveraging its accumulated knowledge in the field of robotics for operation in the field of smart carts for supermarkets. Additionally, the company has a variety of activities in the vehicle industry and the security industry. A2Z holds approximately 78.5% of Cust2mate, while other major shareholders of the company include the Buchwalter Group (20%). The company was incorporated in January 2018 in Canada, and is traded as of December 2019 on the TSX Venture Exchange (Canada). In January 2022, its shares were listed for trade on NASDAQ under the symbol AZ.

**Figure 1: Company's Holding Structure (\*)**



Source: A2Z (\*) With regard to the acquisition of a new subsidiary, see details on page 25.

## The Company's Products

**Smart cart for supermarkets.** The smart cart is the key, most advanced, and significant product of the company's products, with regard to which the company is currently in highly advanced stages of pilot studies with food retail chains worldwide as well as a first order of the product by the fourth largest food chain in Israel. This operation is executed by the subsidiary company Cust2mate, in which the company (A2Z) holds 78.5%.

**Figure 2: CUST2MATE's Smart Cart**



Source: A2Z

The other shareholders of Cust2mate are (1) Buchwalter Group (20%), which mainly operates in shelving, including in supermarkets, and (2) Shibolet Law Firm, one of the leading law firms in Israel.

**Vehicle fuel tank fire prevention system.** The company's system is intended to provide a solution for the event of a fire in the fuel tank which may lead to burning the entire vehicle. It is estimated that in the US alone, approximately 200 thousand vehicles are burned each year due to a fire in the fuel tank, injuring thousands of people, while the financial damage is estimated at approximately \$1.9B. The company estimates the target market in Israel at approximately \$150m and in the US at approximately \$8.5B. The development of this system is currently in advanced stages, and the company estimates that the system shall be examined in pilots with various customers in the future.

**Energy migration system.** The company is developing an energy migration system for the civilian market based on a similar system sold by the company in the security industry. The system provides the ability to equip with a simple available energy source in any situation.

**Maintenance services.** The company is generating current income over the years by providing maintenance services, among other services, to security entities.

**This review focuses on the operation of smart carts, which is the key operation of the company.**

## **Food Retail in the Digital World**

The food retail industry is in the midst of fundamental changes, as it is forced to reinvent itself due to the intense competition over prices and shopping experience. With online services entering the market more than ever, handling the changes in customers' consumption habits is required. In light of these developments, the food retail chains seek solutions to connect the consumers' desire for innovations and a conservative and traditional market.

The size of the food retail sector in the U.S. is estimated at approximately \$6,000B and in central Europe (Germany, UK, France, and Italy) approximately \$2,000B. In Israel, the sector is estimated at approximately \$20B. In most developed countries, the sector is growing at a low one-digit rate, similar to the population growth rate.

### **Food chains operate in three key formats:**

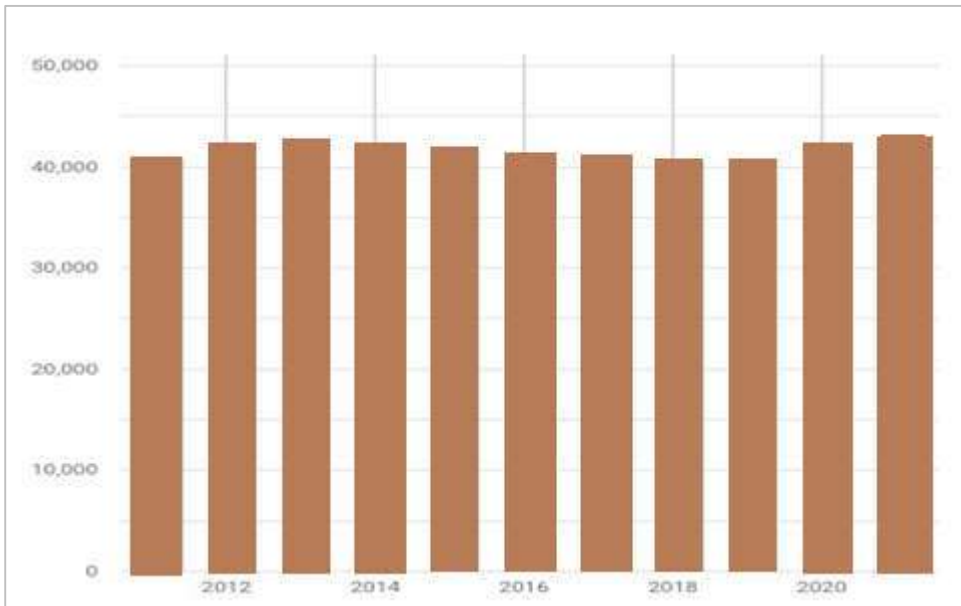
**Urban Format** – relatively small stores selling a small variety of products, located within residential neighborhoods. This model emphasizes a fast shopping experience.

**Discount Format** – large stores, with a wide variety of products, typically located outside of residential neighborhoods. This model emphasizes a price-based shopping experience.

**Online Format** – the products are compiled and packaged by the retailer and delivered to the customer, without their physical arrival at the store.

### Development of Physical Stores

**Figure 3: Number of Branches in the U.S. Food Retail Sector**



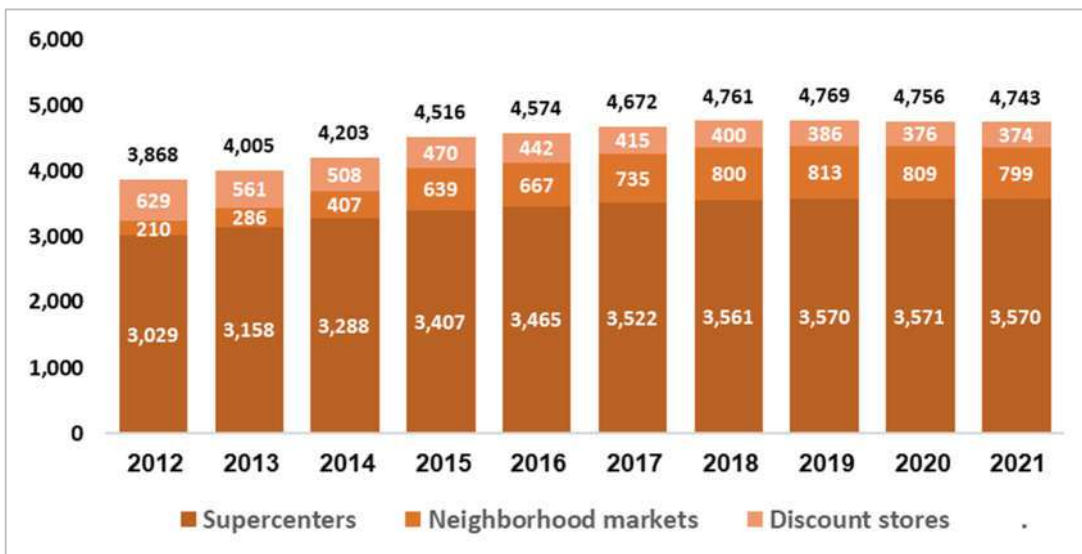
Source: Market Surveys

As of the end of 2021, approximately 42 thousand food retail stores operate in the U.S., while despite the growth in online sales, approximately 400 new stores were added, reflecting approximately 1% growth. Over the past five years (since 2016), the average annual growth was slightly lower, at approximately 0.6% per annum.

### Walmart as a Case Study

Walmart is the largest food retail company in the industry, with thousands of stores worldwide, the main activity thereof is in the U.S.

**Figure 4: Walmart - Number of Stores in the U.S.**



Source: Market Surveys



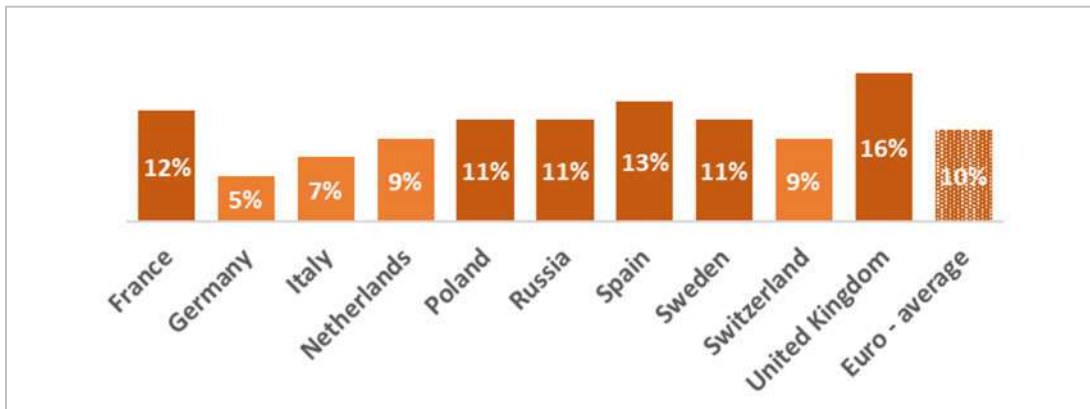
Since 2015, the chain's branches are growing at a rate of 0.8%, similar to the general growth rate of stores in the U.S. However, when segmenting the Discount Format (discount stores and supercenters) against the Urban Format (neighborhood markets), the significant surplus growth of the Urban Format is prominent, at an average growth rate of 3.8% per annum, as compared with an annual average growth rate of just approximately 0.3% in the Discount Format. It shall be noted that the positive growth in the number of branches is not trivial while at the same time, the online activity in Walmart reached a span of approximately 10% of sales in 2021, and as aforesaid, Walmart still continues to expand physically as well.

### Covid-19 Impact on the Sector

In light of restrictions implemented during the Covid outburst, which mainly focused on preventing crowds (shutting down food courts and restaurants), social distancing, and maintaining higher levels of hygiene. A new reality emerged, including increased demand for toiletries and food products by the consumers, which were provided throughout most of the pandemic mainly by the food retail chains.

In addition, in light of the restriction of citizens' mobility and the emphasis on social distancing, significant growth in online sales occurred during the crisis. In Europe, online sales increased by 55%, as compared with an increase of approximately 10% in 2019. In comparison, sales in physical branches increased by just 6% on average. The market share of the Online Format varies from country to country in Europe, but is at approximately 10% on average.

Figure 5: Use of Online Sales Format in European Countries (%)



Source: Market Research

Similarly to Europe, the U.S. also recorded a sharp increase in the Online Sale Format, which grew by approximately 50% to a market share of approximately 10% of all sales made by the food chain.

Figure 6: Growth of Online Sales Format in the U.S. – Actual and Forecasted

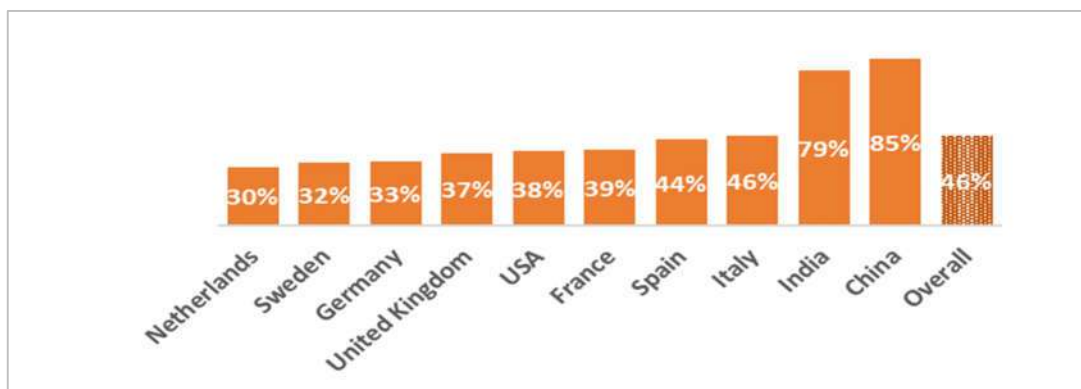


Source: Market Research

The Online Format is expected to double by the end of 2025, reflecting a ~15% CAGR, significantly higher than the market's expected low one-digit growth. **However, market research calls for 80% of the food retail sales to remain on the physical sales floor. Assessing the glass ceiling of the Online Format is difficult at this point, however it seems physical sales will still constitute the vast majority of total sales in the foreseeable future (next 5 years).** Further support for the thesis is the relatively slow entry of retail giants to the online channel. Amazon, AliExpress, and other retail chains, are facing significant challenges in the online food retail sector, compared with the fashion and electronics sectors, in which online sales materially dominate the sector.

Moreover, **market research indicates that even at the peak of the pandemic in the U.S., approximately 85% of the sales were still made in physical stores.** Why would consumers continue to shop physically even at the peak of the pandemic? According to Professor Fabio Parasecoli, an expert in nutrition and food studies, the physical experience generates excitement and satisfaction for the consumers which does not translate to online sales, such as the smell and touch of food products. **In addition, as presented on figure 7, implementing technological solutions by the food chains may significantly decrease the rate at which consumers transition to online sales.**

Figure 7: Consumers Intending to Return to Physical Stores Following Technological Improvements in Branches



Source: Market Research

**In conclusion, unlike popular opinion and despite significant growth in the online format, the legacy physical format of sales in the food chains is expected to continue to dominate.** The future would probably include a multi-format shopping mixture, that is, customers with a high level of

loyalty to one food chain, who combine physical and online shopping, depending on the type of products, shopping circumstances, and specific required needs.

### Entry of Technologies into Physical Retail Market

In recent years, food retail chains are gradually adopting technologies in the physical stores, to create a quick modern shopping experience, which compete indirectly with the Online Format, often their advantages. At the same time, studies show that the main reason for losing customers is a negative shopping experience, even more than losing customers due to price sensitivity.

**Figure 8: Five Key Reasons for a Negative Shopping Experience**

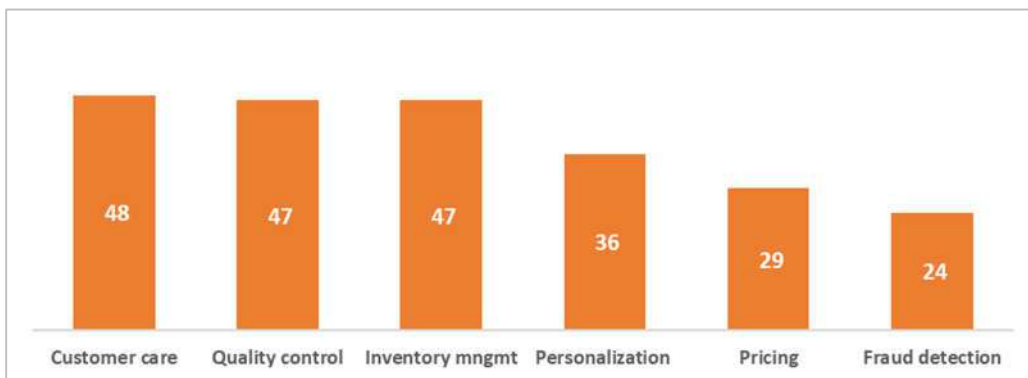


Source: Market Research

Studies further indicate that the main reason for a negative shopping experience is a "long wait for payment", significantly more than other reasons (product shortage, lack of information, etc.).

One study indicates that in 2020, the food retail chains have invested approximately \$3B in new technologies, and within 7 years, the extent of such investment is expected to increase to approximately \$24B (average annual growth of approximately 30%).

**Figure 9: Food Retail Fields Consisting of the Majority of Technological Solutions**



Source: Market Research

The graph above shows that most of the technological solutions are focused on the shopping experience and quality control, and less on the fields of fraud and pricing.

### Technological Solutions Common in Food Chains

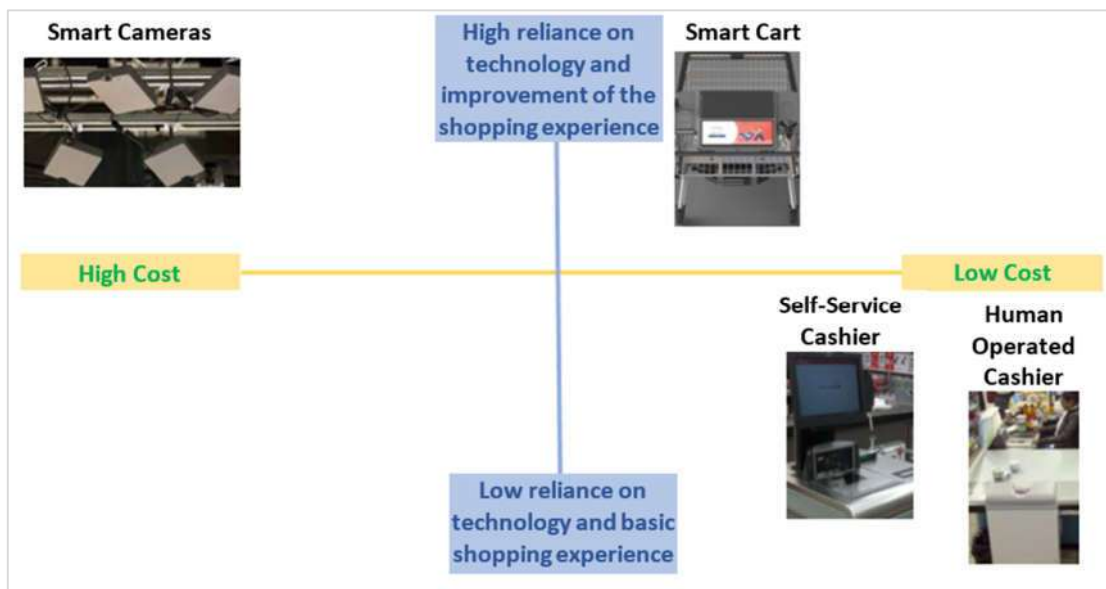
**Self-service cashiers** exist since the early 1990s in the U.S., and later globally. The customer using this service is required to independently scan the products at the end of their shopping. The obvious advantages of this service are reducing the time that the customer waits in line for a manned cashier and not depending on the physical cashier, an element that somewhat improves the positive

shopping experience. However, the main disadvantages are that the customer is required to scan all the products at the end of their shopping, and errors or frauds made by the customers become more probable. The cost of this service to the food chain is relatively low and non-recurrent. The advantage for the retailer is significant savings on personnel costs over time.

**Network of cameras and sensors in branches.** This technology is mostly installed in Amazon Go stores. The technology is based on artificial intelligence and the installation of dozens of cameras around the store. To exercise this technology, an advanced IoT-based technological infrastructure is required. This technology is considered highly pricey (dozens of millions of dollars per branch). Thus, it is currently only applied in very small stores, and is not suitable – both technologically and cost-wise – for large branches with many products.

**Smart Carts.** Shopping carts combining artificial intelligence and the ability to immediately identify products and even measure their weight (if relevant) onto the cart itself. Also, the cart includes an analytical system referring the customer to attractive sales and products, and at the end of the shopping enables customers to pay with a credit card, an element that makes waiting in line for the cashier obsolete.

**Figure 10: Cost vs. Shopping Experience**



Source: Valore Research

A self-service cashier is in fact a middle-ground solution, between the manned cashier and the situation in which the customer is totally self-reliant. It does not answer the challenge of waiting in line, pulling the products out of the cart, and returning them. The advantages of the self-service cashier are first and foremost saving costs for the retailer, with regard to both manpower and smaller cashier area, while the advantage for the customer is a shorter line, but not avoiding the line altogether. Additionally, the amount of errors and frauds made by the customer at self-service cashiers are considered to be relatively high.

Although the solution of installing a network of cameras in branches indeed upgrades the shopping experience, it comes with a price tag that is unproportionally high for this sector. In addition, this technology cannot currently address a large number of products spread over large spaces, since it is required to monitor all buyers and accurately identify all products at the same time. The high cost level and the technological immaturity associated with this solution may be further indicated by the slow rate of expansion of Amazon Go branches, which opened its first branch in 2018 and the expansion rate should have led to including thousands of branches after three years, while so far

only approximately 30 branches based on this technology were opened. **Apparently, among the currently available products, the Smart Cart solution is in the optimal position of both upgrading the shopping experience of the consumer and providing the retailer with a fast return on investment.**

**In conclusion – in the next few years, the food retailers are expected to implement a technological solution that shall improve the customer's experience on the one hand and reduce operational costs on the other hand. The Smart Cart has significant advantages over other solutions, and is expected to take the better share in the market as the primary solution in the customers' interface.**

### Reducing Dependence on Human Capital

The most substantial operational expense in food retail chains is wages (wage expenses typically constitute approximately 50% of total operational expenses). Furthermore, food retail chains are labor intensive companies, which typically suffer from an ongoing shortage of employees and face significant challenges with regard to the recruitment and long-term preservation of employees.

**Figure 11: Vacant Positions (in thousands) in the U.S. Food Retail Sector**



Source: The U.S. Bureau of Labor Statistics<sup>1</sup>

Covid-19 created a high demand by the consumer for the food retail chains, which, in turn, were required to operate for extraordinarily long hours with a larger number of employees. In 2021, the demand of the food retail chains for employees increased to an all-time high number of vacant positions (approximately 50% growth in the number of positions since 2020).

**As the aforesaid shortage continues and deepens, the motivation of food retail chains to implement technology to replace human capital, specifically smart carts which make the manned cashier obsolete, shall probably increase.**

<sup>1</sup> The bureau published the data of vacant positions in all of the retail sector; therefore, the calculation was made based on a similar ratio to that of the number of currently occupied positions in the food retail sector out of the entire retail sector.

Figure 12: Number of Employees (in thousands) in the U.S. Food Retail Sector



Source: The U.S. Bureau of Labor Statistics<sup>2</sup>

Figure 12 shows that in recent years, the number of employees in the field hardly changes, but the number of vacant positions, as aforesaid, is at an all-time high.

### Target Market for Smart Carts

Market research indicates that the smart carts sector is expected to grow by ~27.7% CAGR until 2026, and reaching \$4.0B, compared to \$1.0B in 2021.

Same data further show that the global market of regular shopping carts is estimated at \$800B, and with expected 7 year CAGR of 0.9% to \$850B. Thus reflecting the smart cart market share at less than 1% of the total global cart's market. We note that the legacy cart market in the U.S. alone is estimated at approximately \$200B.

Two main trends may impact the positive development of the smart cart market:

- i. Increasing preference of consumers for self-service cashiers over manned cashiers.
- ii. Widespread implementation of IoT-based technological instruments.

Figure 13: Global Market of Smart Carts

27.7% CAGR (2021-2026)

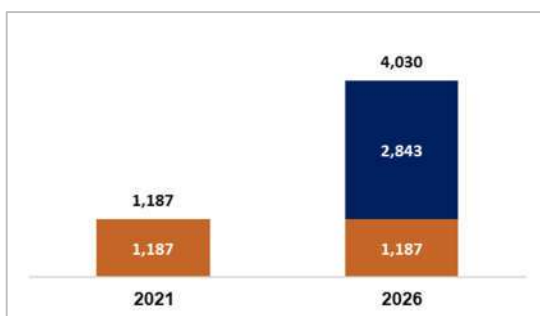
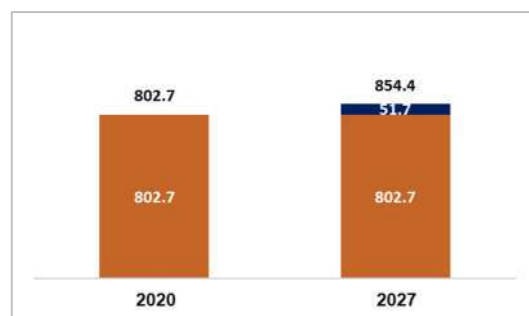


Figure 14: Global Market of Regular Carts

0.9% CAGR (2021-2027)



Source: Market Research

**In conclusion, the smart cart market is expected to rapidly grow over the next few years, as a result of the following trends:**

<sup>2</sup> The bureau published the data of vacant positions in all of the retail sector; therefore, the calculation was made based on a similar ratio to that of the number of currently occupied positions in the food retail sector out of the entire retail sector.

- **Desire to reduce the dependence on human capital.** Food retail chains are labor intensive employers, while the job characteristics and low wages in the sector present challenges with regard to the recruitment and long-term preservation of employees. Since the use of smart carts makes the positions of many employees obsolete, retail companies are expected to be highly motivated to implement it.
- **Rapid return on investment.** Assuming that the use of smart carts shall reduce a non-negligent number of jobs, as well as save expensive sales space in the cashiers' region, the cart purchase model reflects a highly rapid return on investment, in less than one year, and the financial interest is obvious.
- **Ever better financial capability.** The macro-economic environment is highly positive for food chains following the Covid crisis, and has created high cash balances in companies and the ability to invest material cash flow in technological developments.
- **Alternative to online consumption.** The growth trend of online sales market share, as of today, is less of an economic benefit for companies, since the operational profitability in this activity is very low. Therefore, the chains are seeking a technological solution to improve the shopping experience within physical stores, while wishing to slow down the trend of transitioning to online consumption.

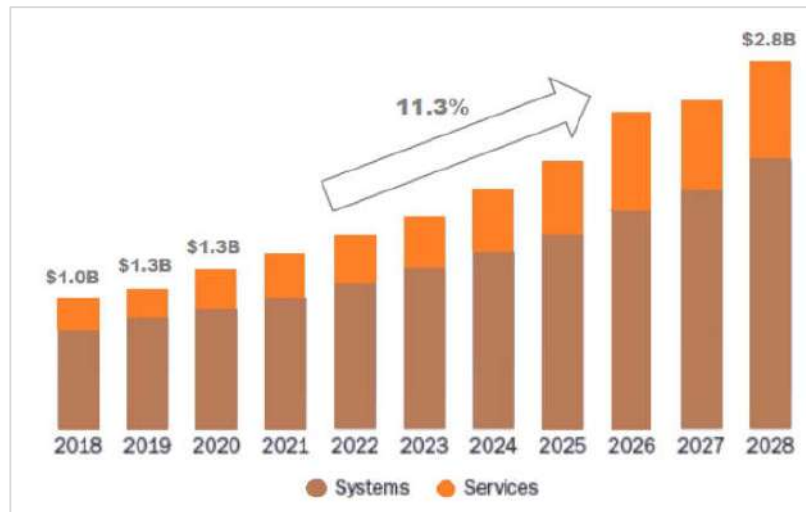
## **The Market of Self-Service Cashiers – Real Indication of Growth Potential**

**Self-service cashiers are, on the one hand, an additional competitor, but on the other hand reflect most reliably the potential of the smart cart market and the growth potential of this market**, since the solution of the self-service cashiers for payment and waiting in line actually constitute a partial solution to the same challenge that the smart carts are intended to solve: shortening the buyer's stay on the one hand, while on the other hand saving manpower and space for the retailer. Therefore, the widespread implementation of the self-service cashiers in food chains worldwide reflects the great market potential of the smart carts.

In fact, the smart carts are expected to make the self-service cashiers substantially obsolete. However, these cashiers shall continue to be used by buyers of a few items, that prefer to buy using these cashiers and not take any cart at all, as is happening today.

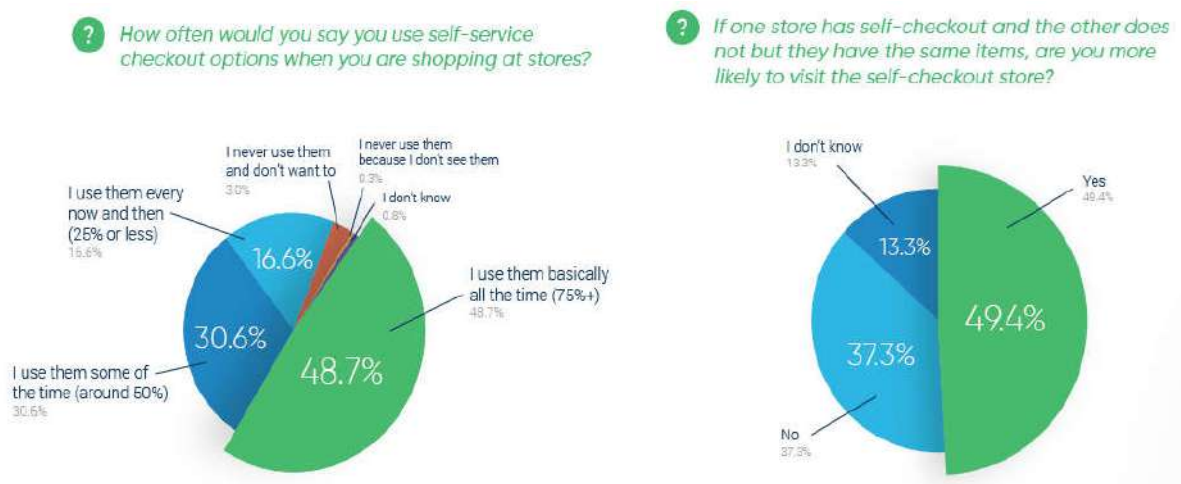
The self-service cashiers market is estimated at approximately \$3.5B as of 2020, after growing by approximately 25% during 2020. During the said year, approximately 180 thousand self-service cashiers were installed in chains worldwide. This market is expected to grow by an average rate of 11% over the next few years and amount to approximately \$6.5B by 2027.

**Figure 15: The Market of Self-Service Cashiers (systems and professional services breakdown)**



Source: Market Research

**Figure 16: Data from a Survey on Self-Service Cashiers**



Source: Market Research

**Two main conclusions may be drawn from the survey presented above with regard to the use of self-service cashiers:**

- A. A significant percentage of the consumers (approximately 50%) regularly use the self-service cashiers.
- B. Approximately 50% of the consumers would prefer to shop in a food chain operating self-service cashiers than one operating only manned cashiers.

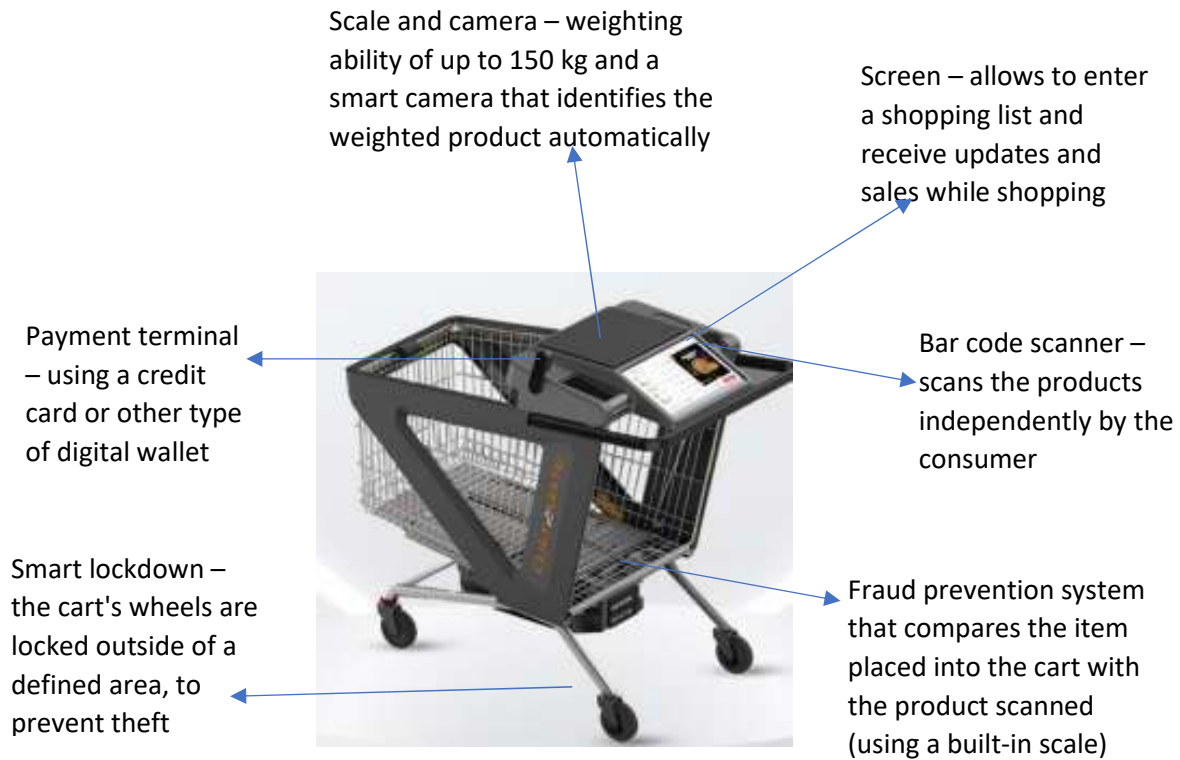
It is estimated that after several years of experience with the consumers with self-service cashiers, the implementation of the smart cart technology shall take place very rapidly. In addition, we expect that, similarly to the advantage provided by the self-service cashiers, the smart carts will also provide a material competitive advantage for the food chains using them, until such carts will be widely implemented in most stores in the same region.

**Given the foregoing, the increasing use of self-service cashiers by consumers and the preference thereof by consumers reflect the great potential of implementing the smart cart solution and the expected high increase in the use thereof.**



## Cust2mate's Smart Cart

Figure 17: Key Characteristics of the Company's Smart Cart



Source: A2Z, Valore Research

The company views the smart cart product created thereby a holistic solution that generates advantages for both the retailer and the consumer in the store, and even for the supplier.

Figure 18: Advantages of the Company's Smart Cart

Retailer	Consumer	Supplier
<ul style="list-style-type: none"> <li>✓ Reducing dependence on human capital</li> <li>✓ Making physical cashiers obsolete</li> <li>✓ Managing inventory</li> <li>✓ Generating analytical insights</li> </ul>	<ul style="list-style-type: none"> <li>✓ Saving time in line for payment</li> <li>✓ Referring to "smart" shopping and sales</li> <li>✓ Navigating to required products</li> </ul>	<ul style="list-style-type: none"> <li>✓ Products' sales promotion</li> <li>✓ Big data analysis and deriving insights</li> </ul>

Source: Valore Research

The company estimates that its precedence in the market and its use of mature technology shall help the company quickly implement its solution in various markets worldwide.

## The Smart Cart as a Platform

As part of the company's vision, A2Z estimates that the data analysis and advertising market shall represent two key growth engines for the company. The ability to provide the retailer with a comprehensive insight into the consumers' consumption habits, while also enabling targeted advertisements of the suppliers, may lead these fields to the core of the company's business operation. In other words, the carts may be used as a platform and thus provided to retailers at cost prices, and maybe even for free in the future, *i.e.*, without any initial payments, while the company profits from advertising agreements with suppliers and the sale of data to retailers.

**Advertising.** The ability to offer personalized advertising, while the consumer shops, is an ideal combination for suppliers. The company believes that as soon as the early stages of delivering carts to the chains, it would be able to apply commerce agreement with suppliers, mainly due to the expectancy of a high conversion rate between the product advertising and the actual purchase by the consumer.

**Big Data.** The use of smart carts is expected to provide the food chain with many insights regarding the consumption habits of the customers, and mainly deepen the issue of personalization for the consumer. Currently, many companies are operating in the field of data analysis in food chains, but the data collected actually during shopping create a much higher resolution with regard to what the consumers want, and are expected to serve the food retail chain in enhancing the shopping experience.

**Digital Wallet.** The combination of financial aspects and the use of smart carts would be very natural for consumers, continuing the technological experience while purchasing the products even in the final stage of payment. As of now, the company is already negotiating with digital wallet companies to cooperate therewith. We estimate that agreement with such companies shall be based on sharing the revenues from clearing fees.

Note that each of these markets – advertising, big data, and digital wallet – involve huge target markets of tens of billions of dollars. **A2Z estimates that meeting the company's production and roll-out targets of tens of thousands of carts per year, will increase the chances of success in these fields would grow substantially.**

## Competitive Landscape

We note there are 10-20 companies currently operating in the smart carts and/or alternative technological solutions market. Many of them are start-up companies, but there are also developments of industry bellwethers, such as Amazon. Moreover, the technological requirements for creating a smart cart are apparently high, but can be copied with minor adaptations, so additional companies are likely to enter the market in the future based on the currently available developments.

The prominent direct competitors having a product based on the cart include – Caper Ai, Tracxpoint, WalkOut, Supersmart, Superhii, Shopic, and Amazon Dash Cart.

In addition, there are also indirect competitors relying on sensors and cameras technology, with a regular cart or no cart at all. Among these are: Trigo, Amazon Go, and Standard Cognition. Note that sensors and cameras based solutions are currently appropriate for small stores, convenient stores, and not supermarkets.

The initial conclusion from the fact that there are many players in this market is that not only does A2Z identify the market potential, but the general approach is that the smart carts are the preferred solution in upcoming years.

However, there are differences between various competitors in the market for smart carts. The main differences are summarized as follows:

**Figure 19: Peer Comparison**

Solution	Technology	Upsales, Coupons, Advertising	Security Scale	Built-In Produce Scale	In Deployment	Fits for convenient stores	Fits for supermarkets	Fits for unpacked food	payment in the cart	Fitted onto existing shopping carts
Cust2Mate	Mobile Self Check Out	✓	✓	✓	✓	✓	✓	✓	✓	✗
Amazon Dash Cart	Computer Vision	✓	✓	✗	✓	✓	✗	✗	✓	✗
Caper	Computer Vision	✓	✓	✗	✗	✓	✓	✗	✓	✗
Superhii	Scanning Technology	✓	✓	✗	✗	✓	✓	✓	✓	✗
Shopic	Computer Vision	✗	✗	✗	✗	✓	✓	✓	✗	✓
SuperSmart	Scan and go	✗	✓	✗	✓	✓	✓	✓	✗	✓
TracxPoint	Computer Vision	✓	✗	✗	✓	✓	✓	✓	✓	✓

Source: Valore Research

As shown on Figure 19, Cust2Mate offers the most comprehensive package of features and abilities of the cart. The company's solution is not an "add-on" device to regular carts, unlike some of the other solutions, such as those of Shopic and SuperSmart. As it requires the purchase of smart carts, Cust2Mate includes numerous distinctive features.

The Computer Vision technology, used by some of the aforesaid companies, is still not complete and is expected to mature in several years. The company notes that when Computer Vision matures and becomes generally available, Cust2Mate is in a position to implement it in a short period, which it expects to add to its acquired experience with loyal customers.

It is important to note that even though the smart cart market continues to attract competition, from various technologies, the nascent state of the market actually positions Cust2Mate at a favourable risk/reward opportunity - Bearing risk but also a relatively high chance of success, given the trends in the market:

- **Huge market amid growth.** As indicated above, the regular cart market amounts to approximately \$800B, and is expected to go through a digital transformation over the next few years, and as a result, grow even further.
- **Highly diversified market.** The market consists of a mixture of thousands of potential customers widely spread geographically, and therefore offers many opportunities to enter the market.
- **Carts – the most relevant solution.** As mentioned, companies are highly motivated to implement technology that improves customers' experience while also reducing expenses, and the understanding that the carts are the best solution attracts notable competition.
- **Competition.** Implementing smart carts is expected to generate a significant advantage for early adopters, while the competing stores in the same geographic region and/or country would have to implement a similar solution in order to remain relevant.

**Therefore, the size of the market and the wide variety of customers, are expected to leave room for several companies, with a clear advantage to the first-to-market solutions. Thus, opposed to the typical case of early-stage companies operating in markets characterized by dynamics of one winner and many losers, which undermine the risk/reward opportunity.**

## Cust2mate's Business Model

The company's strategy is to operate as a SaaS company, such that the customer's payment is executed repeatedly, and not in a one-time payment. Three types of payments to be made by the customer are included in the company's agreements:

1. Initial non-recurrent payment – \$1,000-2,000 per cart.
2. Ongoing subscription while using – \$100-200 per cart per month.
3. Additional services – mainly data and advertising, for an estimated amount of \$30-60 per cart per month.

**Figure 20: Estimated Income From the Sale of a Smart Cart**

	Year one – annual income	Following years – annual income
Advance payment (according to \$1,500)	1,500	-
Ongoing subscription (according to \$150)	1,800	1,800
Data services (according to \$45)	540	540
Total	3,840	2,340
Rate of recurring income	61%	100%

Source: Valore Research

It is noteworthy that the Yochananof transaction (see Figure 22), is not typical of Cust2Mate SaaS strategy going forward. As a strategic enabling account, Cust2Mate agreed to a one-time sale of the smart cart, in addition to relatively low-priced ongoing professional service. The company does not intend to repeat a one-time order in future transactions.

## Penetration Strategy

The food retail chains significantly vary in scale, while in the U.S. the larger chains hold a significant market share (approximately 50%), and accordingly also a similar share of the number of branches in the U.S. The same also applies to Europe.

**Figure 21: Large-Scale Food Chains in the U.S. and Europe**

	Chain	Number of Branches	Center of Operation
1	Carrefour	12,300	Europe
2	Lidl	12,000	Europe
3	Walmart	11,500	U.S.
4	Edeka	11,000	Europe
5	Aldi	10,000	Europe
6	Tesco	5,000	Europe
7	Rewe	3,500	Europe
8	Kroger	2,750	U.S.
9	Albertsons	2,300	U.S.
10	Target	2,000	U.S.
11	Mercadona	2,000	Europe
12	Phblix	1,250	U.S.
13	Costco	800	U.S.
	Total	76,400	

Source: Valore Research

Theoretically, a transaction with one of the global Large-Scale chains should enable the company to operate for several years with a significant cash flow – for example, a chain with 10,000 branches under a conservative assumption of 50 smart carts per branch, would lead to a total of 500,000 smart carts worth approx. \$1.0B yearly revenues.

**However, in the initial stage, the company chooses to enter the target market through medium-size chains, for two key reasons:**

- A. **Avoiding exclusivity agreements** – pilots with the large retail chains typically required the supplier to sign strict exclusivity agreements, an element that naturally limits the company's rapid spread with other customers.
- B. **Schedules** – negotiations and pilots with the large-scale retailers take a long time compared with medium-size chains, potentially undermining Cust2Mate's Time to Market advantage.

**Therefore, as specified above, the company chooses to engage with medium-size chains, and enter large chains in later stages. Thus, assuming success with medium-size chains will leverage the company's competitive edge in later negotiations with large-scale retailers.**

### Costs Model – Supports the Strategy's Implementation

In order to meet the challenge of selling the smart carts to hundreds of food chains around the world, with a wide geographic spread in a relatively short time, the company has created several strategic partnerships with local integrators, applying a revenue sharing model which accounts approx. one-third of revenues to the local integrator.

**Thus, the company significantly shortens the time of delivery** gaining access to local chains which are less known or accessible to the general market. It is important to note that with regard to the larger and more known food chains, the company intends to operate directly without any partners or middle-man integrators.

The company estimates that it shall be able to grow rapidly and reach production and delivery of tens of thousands of carts annually, within a time frame of just two years. This scenario derives a forecasted income of more than \$50 million per year by 2023, more than half of which is expected to be recurrent income.

**Figure 22: Ongoing Pilots**

Chain	Country	No. of Branches	Pilot Study Status
<b>Yochananof</b>	Israel	35	Completed successfully. an order was made for 700 carts to be supplied in Q1-2022, and hundreds more are expected
<b>Not published</b>	Israel	One of the largest retailers in Israel	Pilot expected to start in early 2022
<b>Morton Williams</b>	U.S. – New York	16	Pilot currently implemented
<b>Evergreen</b>	U.S. – New York	2	Pilot currently implemented
<b>Chedraui</b>	Mexico	262	Pilot currently implemented

Source: A2Z, Valore Research

- **The Yochananof transaction** – after executing a successful pilot with the food retail chain over the past year, an order of 700 smart carts was received, to be provided by the end of the first quarter of 2022. The company estimates that an additional order of the same extent is highly probable, under the assumption that a sufficient minimal amount of smart carts is

approximately 50 smart carts per branch. **The company believes that this is the first transaction in the world reflecting a full deployment of smart carts in a food retail chain.**

- **Additional pilots** – additional pilots are taking place in the U.S. and Mexico. The average expected duration of such a pilot is two months, and the company estimates that the conversion rate of 50% from pilot to execution of a transaction.
- **The company states that it is negotiating further pilos to start in 2022 with additional food retail chains, mainly in Europe.**
- **The company believes that each successful pilot materializing into a transaction shall bring forth additional pilots.**

### Development and Production of the Smart Cart

The development of the first generation of the smart cart was executed relatively fast over just a few years. The company has decades of experience in developing robots for the security industry. Cust2Mate believes the extensive knowledge of robotics represents a relative advantage in complex production processes and operation with large-scale customers. According to the company's vision, a new generation of smart carts shall be developed each year, with the third generation currently under development.

Concurrently with the complex technological development, the company is working to reduce production costs, from the prototype phase to the present \$4,500 per cart. In addition, the company expects to implement further cost efficiencies in the short term, bringing production cost to approx. \$1,500 per cart. We note that according to the company, most of the efficiency process thus far is derived from centralized production by one main supplier.

**Figure 23: Cust2Mate's Cost Reduction target**

Stages in the production process	Producing the cart by one main supplier	End goal of mass production
Year	Currently	2024E
Cart production price (\$)	4,500	1,500-2,000

Source: A2Z, Valore Research

The company's revenues from a single cart (net of the local supplier's share of the income), as opposed to production cost under mass production, **derive a return on investment within just 7 months**. Even when accounting for transportation costs and additional costs, the company expects to cover the cost of the cart within less than one year.

## Output and Production Possibility

In September 2021, the company announced signing an agreement with Flex Ltd. for the production of its smart carts. Flex has facilities in 30 countries, as well as advanced logistics, manufacturing, and supply abilities. The purpose of the agreement is to ensure a significant production ability and favourable lead time. The company estimates that in accordance with this agreement, there are currently no real limits to its production span, as it is able to produce tens of thousands of carts per year.

## Caper AI Buyout

In October 2021, Instacart – an American company specializing in online food deliveries – announced the acquisition of Caper AI, a smart cart and self-service cashiers company, for \$350m. Caper AI – incorporated in 2016 and up to the date of the aforesaid sale raised an amount of just approximately \$13m. Starting in 2020, the company has implemented three pilot studies with food chains, one of which is the giant American food chain Kroger, but has not begun actual deployment.

## Key Insights from the Transaction

- A. **Price** – pricing the transaction at approximately \$350m while the acquired company (Caper Ai) has no significant profit or income, emphasizes the high value applied to the company based only on its market entry potential.
- B. **Identity of acquirer** – Instacart, which specializes in online food deliveries and is estimated at a value of tens of millions of dollars (private company) acquires activity in physical stores. This attests to the understanding that the physical retail market shall remain dominant for many years to come, and that in the future, the relationship between the online sales market and the physical sales market shall represent a similar holistic experience.
- C. **Acquisition strategy** – Upon the announcement of the acquisition, Instacart CEO stated: "we share the same purpose, which is to provide retailers with new technologies that help them succeed in an increasingly more competitive industry, while also providing customers with the best shopping experience". That is, online sales are one technological experience, and the carts are the physical store technology.

The mere acquisition and the above reference reflect the view according to which physical stores shall continue to have a material role in the food retail market, and the smart cart shall provide the digital experience in the stores.

**It is fair to assume that in addition to online food companies (such as Instacart), which have high synergy with smart cart companies, it is highly likely that similar transactions shall occur in the future.** Additional options for such acquisitions are companies operating in the field of self-service cashiers, which further to strategic cooperation with smart cart companies, may make such acquisitions due to the possibility that the smart cart technology shall make the use of such self-service cashiers significantly obsolete. The most prominent companies operating in the field of self-service cashiers are NCR, Fujitsu, and Toshiba.

## Financial Analysis

The cash balance of the company as of 3Q21 was \$8m. Cust2Mate estimates that the current cash burnout rate is approximately \$6 million per year. Thus far, the company has been able to finance itself, mainly through capital raising, while six such raisings have been executed since 2019 in the total amount of approximately \$20m in consideration of shares and options. We note that several large Israel institutional entities have participated in the aforesaid capital raisings, as well as the food retail chain Yochananof, which currently holds approximately 10% of the company (fully diluted).

**Figure 24: Key Financial Outcomes of the Company**



Source: A2Z, Valore Research

The significant loss since the beginning of 2021, approximately \$36m, derives from the revaluation of options issued as part of the aforesaid capital raisings, which were recorded as a financial liability. The loss for this revaluation alone amounted to approximately \$32m. Such revaluation of options was also made in 2020, generating a loss of approximately \$3m.

**The operational expenses of the company – such as R&D expenses, administrative expenses, and sales and marketing expenses are expected to generate an operational loss in the short term. Hence, support the company to substantially increase its market penetration in the short-term.**

**Additional activities of the company** – as previously mentioned, the company has additional activities other than the smart carts: a vehicles fuel tank fire prevention system, an energy migration system, and maintenance services, among other services, to security entities. These activities are independent with regard to R&D, business development, and sales. In fact, the company's outcomes up until 2020 only included these activities and the registration for trade, while the company's income, in the amount of \$1.4m in 2019, \$1.1m in 2020, and \$1.5m between 1Q21-3Q21, was generated from the other activities unrelated to smart carts. From 1Q21-3Q21, approximately \$750K of the income is attributed to the smart carts' activity.

**The acquisition of Isramat** – in January 2022, A2Z announced the acquisition of the Israeli company Isramat, which owns a metal parts factory. The acquisition is in fact a vertical acquisition of one of the manufacturers of the parts of the company's smart cart, and is intended, among other things,



to lower the cost of production of the company's smart cart and improve the supply and logistics chain of the company.

The sales turnover of Isramat was approximately \$5.6m in 2020, and its equity was approximately \$2.9m. The acquisition was in consideration of approximately \$3m, while approximately \$0.9m to be paid in cash and the remaining amount in A2Z shares. The shareholders of Isramat shall receive 273,774 shares with a derivative value of approximately \$7.6 per share.

## Conclusion

A2Z, through its subsidiary Cust2Mate, operates in the smart cart market, a giant global market of billions of dollars, incorporating a high double-digit growth potential. In the first phase, the relevant market is the Self-check-out, or self-service cashiers, which itself is currently worth approximately \$3.5B and is expected to grow at a high rate. In the next phase, the smart carts are expected to expand the market at the expense of the regular cart market, which is worth hundreds of billions of dollars.

A key advantage of the company is the fact that its smart cart applies existing technology and that its product is already operational and shelf-ready, unlike most of its competitors. Compared to the operational solutions of the competitors (which are already operating), the company's solution has prominent significant advantages, such as weighting products onto the cart and payment in the cart itself.

The company's management has substantial proven experience in the field of retail, and particularly in the field of cashiers and payments. Such experience provides a significant advantage - critical for the company's ability to execute successfully. The company's operation model generates a high return on investment in carts, as well as highly wide gross and operational margins.

## Company Management

**Joseph Ben Tsur** – CEO and Chair. A serial entrepreneur, who has several patents registered to his name, as well as vast experience in establishing successful companies and expanding them into new markets and industries. He has served as Chair of the international Elad Hotels chain, as Director of MARLAZ Holdings, and as CEO of DIG Ltd., a public company that produces and markets electronic components sold throughout Israel.

**Rafael Yam** – CEO of the subsidiary Cust2Mate. He previously served for 6 years as CEO of NCR Israel, a software company that specializes in the development of systems for retail chains. Mr. Yam's rich background in retail in general, and specifically in implementing payment systems in supermarkets, is highly significant for the company, putting the customers at ease with regard to the implementation of this solution and actually shortening the implementation processes.

**Amnon Peleg** – Chief Technology Officer. A renowned specialist in telecommunications, energy, and systems operations. Peleg has vast experience in the development and implementation of complex technological projects. He has more than two decades of experience as a Technological Project Manager for Israel's Prime Minister's Office.

**Amir Benkel** – Chief Financial Officer. Brings vast experience in finance with various multi-national companies.

**Gadi Levin** – Senior financial advisor, deputy CFO. With extensive experience in capital markets, he has served in executive positions in public companies listed on Canadian, USA, and London stock exchanges.

**We note numerous of the company's executives are ex-NCR Israel executives, highly experienced in the retail and payments market – with accumulated experience of ~500 years in retail, according to company estimates.**

## **Risks**

- The company currently operates several pilots with food retail chains around the world, and intends to significantly increase the number of such pilots with additional chains soon. Efficiency and effectiveness in these pilots are expected to generate actual orders from the chains. On the other hand, a failure of a large number of such pilot may undermine the company's reputation and the efficiency of its product.
- Several companies operate in the field of smart carts or parallel fields, the majority of which are start-up companies, but there are also giant companies such as Amazon (although it is not selling its solution externally). In addition, the successful entry of the company into its target markets shall probably attract additional competitors to this field.
- Currently, the company does not generate significant income. In order to lead and develop its strategic plans, it is expected to increase its sales and marketing expenses, and as orders come in, also the expenses associated with producing the carts. Therefore, the company is expected to continue to present losses which could require additional capital raises, for at least the upcoming year.

## Disclosure Appendix

### Valore<sup>3</sup>: Caveats and Due Disclosure regarding the Analysis

#### a. Details of analysis preparation

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Jonathan Kreizman is employed by Mor Magna, a subsidiary of the Y.D. Mor Investment Group Ltd. (hereinafter "Mor"), whose address is 2 Ben Gurion St., Ramat Gan, telephone 03-7554949.

#### b. Due disclosure by Jonathan Kreizman (hereinafter: "Preparer of the Analysis" or "Writer"):

1. As far as the Writer knows, as of the date of publication of this research, the Writer has no direct or indirect conflict of interests.
2. The opinions in this paper faithfully reflect his personal opinions of the securities reviewed.

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