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Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

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

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Guides to a Stronger than Expected 1Q22, Raising Our Numbers

Jason H. Kolbert
Managing Director and Senior Analyst
jkolbert@dawsonjames.com

Safe-T Group guided to 1Q22 revenue of \$4M versus our estimate of \$3.3M. We are bumping our estimate for the full year up from \$13.9M to \$14.6M. We expect that Geopolitical events are driving the need for enhanced security for both Enterprise and Consumer markets.

Management PreAnnounces a Strong 1Q22. First quarter results include continued growth in new subscribers for the Company's consumer products, as well as for its enterprise privacy solutions. Management stated that "In the first quarter, our performance continued to be driven by growth in the consumer market, a direct result of our customer acquisition efforts".

Background

- **Safe-T Group Ltd. Safe-T group strengthens its entry into the consumer markets segment with Ad Blocker Pro.** This comes at a time when individuals rely more than ever on these devices, facing the highest level of online threats that have ever existed. Safe-T offers an advanced level of premium protection available for both the Consumer and Enterprise markets. A subscription service model provides real-time security from ransomware to cyber-snooping. The company's greatest asset is its intellectual capital and flexibility to pursue growth where it sees the opportunity, combined with a marketing machine that can convert invested dollars to market share, translating into a loyal subscriber base.
- **Consumer Cyber Security -CyberKick:** Safe-T acquired CyberKick (July 2021), providing the company access to online privacy solutions for consumers allowing data encryption – safe internet searching. CyberKick's iShield is an advanced real-time subscription-based cybersecurity product designed to protect against ransomware attacks, Viruses, Phishing attacks, and emerging online threats (such as your PC's camera being hijacked). The company has approximately 15k subscribers, and that number is growing steadily. Safe-T has established proof of concept in the market where the opportunity for a premium product has never been more vital.
- **ZoneZero - Trust No-One: Secure Remote VPN.** Zero trust is a security model focused on enforcing strict access controls and NOT trusting others by default, even those already within the network's Perimeter. The model is designed so that rigorous identity verification is required for any individual and device attempting to access resources on a private network. Multiple products exist in the ZoneZero family, including ZoneZero SDP (software-defined Perimeter), ZoneZero (Multi-Factor Authentication), and ZoneZero VPN, which offers true Enterprise Privacy through a fast, secure network, all accomplished without third party computers.

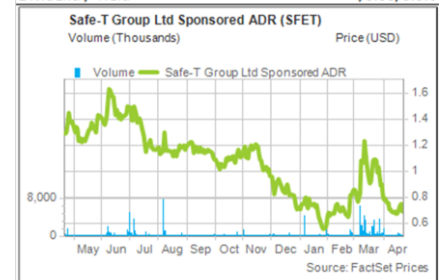
Valuation: We provide a model out to 2030, but in reality, we see growth over the next two years as critical for the company to establish itself as a viable niche market premium alternative to the generic products available today. We use a 30% risk rate in our Free Cash Flow to the Firm (FCFF), discounted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

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



Source: Safe-T Group

Stock Data	
52-Week Range	\$0.48 - \$1.69
Shares Outstanding (mil.)	30
Market Capitalization (mil.)	\$21
Enterprise Value (mil.)	\$8
Debt to Capital	0%
Book Value/Share	NA
Price/Book	NA
Average Three Months Trading Volume (K)	197
Insider Ownership	16.3%
Institutional Ownership	1.3%
Short interest (mil.)	1.7%
Dividend / Yield	\$0.00/0.0%



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

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

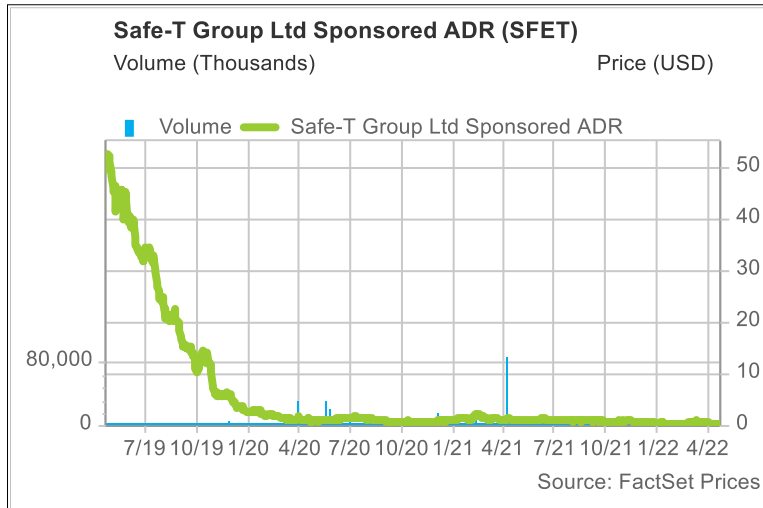
Exhibit 1. Income Statement

Safe-T: Income Statement (\$000)														
YE December	2021A	1Q22E	2Q22E	3Q22E	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Product Revenues (Consumer & Enterprises)	10,281	4,000	3,350	3,500	3,750	14,600	21,900	35,000	50,000	75,000	90,000	120,000	140,000	140,000
Total Product Revenues	10,281	4,000	3,350	3,500	3,750	14,600	21,462	34,300	49,000	73,500	88,200	117,600	137,200	137,200
Product Sales & Royalties & Milestones	10,281	4,000	3,350	3,500	3,750	14,600	21,462	34,300	49,000	73,500	88,200	117,600	137,200	137,200
Expenses														
Cost of goods sold	5,145	1,200	1,005	1,050	1,125	4,380	6,439	10,290	14,700	22,050	26,460	35,280	41,160	41,160
Research and Development	4,771	1,152	1,202	1,252	1,302	5,010	5,260	5,523	5,799	6,089	6,394	6,713	7,049	7,401
Selling & Marketing	8,348	1,997	2,084	2,170	2,257	8,682	9,029	9,390	9,766	10,157	10,563	10,985	11,425	11,882
General & Administrative	6,858	1,640	1,712	1,783	1,854	7,132	7,418	7,714	8,023	8,344	8,678	9,025	9,386	9,761
Total expenses	25,122	5,989	6,003	6,256	6,539	25,204	28,145	32,918	38,288	46,640	52,094	62,003	69,019	69,623
Operating income (Loss)	(14,841)	(1,989)	(2,653)	(2,756)	(2,789)	(10,187)	(6,249)	1,835	11,184	27,352	36,619	56,131	68,738	67,577
Financial Income (expense)	445													
Tax Benefit	153													
Total other income	598	-	-	-	-	0	0	0	-	-	-	-	-	-
Pretax Income	(13,125)	(1,989)	(2,653)	(2,756)	(2,789)	(10,187)	(6,249)	1,835	11,184	27,352	36,619	56,131	68,738	67,577
Income Tax Benefit (Provision)	-	-	-	-	-	-	-	183	2,237	8,206	13,915	21,330	26,120	25,679
Tax Rate	0%	0%	0%	0%	0%	0%	0%	10%	20%	30%	38%	38%	38%	38%
GAAP Net Income (loss)	(13,125)	(1,989)	(2,653)	(2,756)	(2,789)	(10,187)	(6,249)	1,651	8,947	19,147	22,704	34,801	42,617	41,898
Deemed Dividend on Preferred Stock														
GAAP-EPS	(0.48)	(0.07)	(0.09)	(0.09)	(0.09)	(0.33)	(0.20)	0.05	0.28	0.59	0.69	1.05	1.27	1.23
GAAP EPS (dil)	(0.48)	(0.07)	(0.09)	(0.09)	(0.09)	(0.33)	(0.20)	0.05	0.28	0.59	0.69	1.05	1.27	1.23
Weighted shares basic	28,022	30,603	30,634	30,664	30,695	30,649	31,048	31,453	31,863	32,278	32,699	33,125	33,557	33,994
Weighted shares dil	28,022	30,603	30,634	30,664	30,695	30,649	31,048	31,453	31,863	32,278	32,699	33,125	33,557	33,994

Source: Dawson James estimates, company reports

Important Disclosures:

Price Chart:



Price target and rating changes over the past three years:

Initiated – Buy – January 31, 2022 – Price Target \$6.0
 Update Report – February 17, 2022 – Price Target \$6.0
 Update Report – March 29, 2022 – Price Target \$6.0
 Update Report – April 22, 2022 – Price Target \$6.0

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- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months.
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months.
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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Current as of... 7-Apr-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	74%	4	13%
Market Perform (Neutral)	11	26%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	42	100%	4	10%

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