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## Alarum Technologies Ltd. (ALAR) – Neutral

July 10, 2023

### Pre-Releases 2<sup>nd</sup> Quarter: \$6.4M in Revenues – 1<sup>st</sup> Quarter Loss is Still Being Determined? Cost Reductions and Divestitures too

Alarum pre-announced 2<sup>nd</sup> quarter is now projected at \$6.4M (or better). The company had some confusing language in the press release around it's "adjusted EBITDA" in Q1 and that positive trends continue and "Company's preliminary net loss changes from the first quarter of 2023 are still being determined and will be released with the full results when available". We remain on the sidelines for now.

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### Investment Highlights

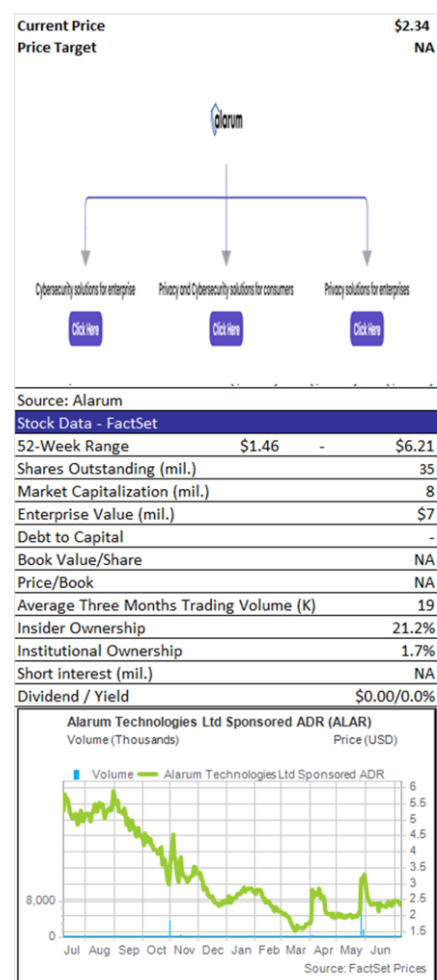
**Can Alarum Breakout?** It is our opinion that Alarum is capital constrained. The company pre-announced second quarter with \$3.8M in cash. Some of the language in the press release is "confusing" to us, as the company is now saying that the preliminary net loss from Q1 2023 is still being determined. We are not a fan of adjusted numbers for micro-cap companies. We view the revenues number as positive however we don't yet know the associated spend and the "adjustments" (see the bullets that follow). Management in our opinion continues to be caught between preserving capital, especially in the wake of a reverse stock split, and growing the business. While we applaud efforts to continue to build organic growth, we know that industry leaders have deep pockets which support large marketing and sales budgets.

**Cost Reductions?** (Press release): A purchase pause by the largest customer of CyberKick, the Company's Consumer Internet Access business unit, which accounted for approximately 60% of the consumer internet access segment and approximately 18% of the Company's total revenue for the second quarter of 2023, along with the above-mentioned factors in this segment, supported the decision to focus on revenue that yield high return on investment and profitability. The Company will scale down operations in the Consumer Internet Access business, with material expenses and headcount reductions, in order to right-size accordingly.

**Divestiture? Sale of the enterprise cybersecurity business:** (Press release): Further to the Company's announcement of January 18, 2022, regarding the appointment of TerraZone Ltd. ("TerraZone") as the Company's exclusive reseller of its legacy cybersecurity solutions, Alarum has now entered into a definitive agreement with TerraZone for the sale of its enterprise cybersecurity business. Alarum's consideration for this transaction is 7% of the fully diluted share capital of TerraZone.

**Valuation:** We provide a model out to 2030. Near term growth over the next few years is in our opinion, 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 to achieve a target valuation. With that said, as a Neutral rated stock we do not publish a price target.

**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.



**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;
- Alarum 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.

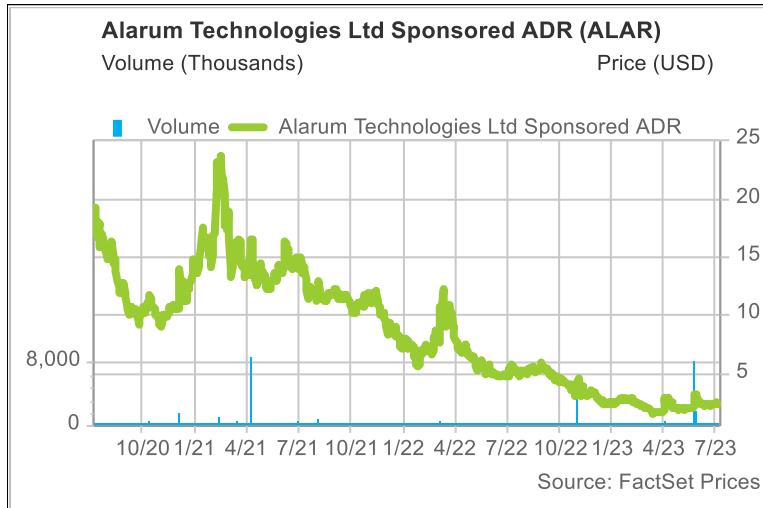
**Exhibit 1. Income Statement**

Alarum : Income Statement (\$000)													2025E	2026E	2027E	2028E	2029E	2030E
YE December	2021A	1Q22A	2Q22A	3Q22A	4Q22A	2022A	1Q23A	2Q23E	3Q23E	4Q23E	2023E	2024E						
Product Revenues (Consumer & Enterprises)	10,281	4,021	4,777	4,812	5,169	18,779	5,679	6,400	6,400	6,400	22,159	35,000	50,000	75,000	90,000	120,000	140,000	140,000
<b>Total Product Revenues</b>	<b>10,281</b>	<b>4,021</b>	<b>4,777</b>	<b>4,812</b>	<b>5,169</b>	<b>18,779</b>	<b>5,679</b>	<b>6,400</b>	<b>6,400</b>	<b>6,400</b>	<b>24,879</b>	<b>34,300</b>	49,000	73,500	88,200	117,600	137,200	137,200
<b>Product Sales &amp; Royalties &amp; Milestones</b>	<b>10,281</b>	<b>4,021</b>	<b>4,777</b>	<b>4,812</b>	<b>5,169</b>	<b>18,779</b>	<b>5,679</b>	<b>6,400</b>	<b>6,400</b>	<b>6,400</b>	<b>24,879</b>	<b>34,300</b>	49,000	73,500	88,200	117,600	137,200	137,200
<b>Expenses</b>																		
Cost of goods sold	5,145	1,904	2,166	2,185	2,402	8,652	1,927	1,280	1,280	1,280	5,767	10,290	14,700	22,050	26,460	35,280	41,160	41,160
	50%	30%	30%	30%	30%	46%	30%	20%	20%	20%	23%	30%	30%	30%	30%	30%	30%	30%
Research and Development	4,771	1,394	889	972	778	4,033	1,062	1,000	1,059	1,101	4,235	4,446	4,669	4,902	5,147	5,405	5,675	5,959
Selling & Marketing	8,348	3,034	2,624	3,027	3,502	12,187	2,183	3,042	3,169	3,295	12,674	13,181	13,709	14,257	14,827	15,420	16,037	16,679
General & Administrative	6,858	2,251	1,998	1,097	1,416	6,792	995	950	1,766	1,837	7,064	7,346	7,640	7,946	8,264	8,594	8,938	9,295
<b>Total expenses</b>	<b>25,122</b>	<b>8,583</b>	<b>6,080</b>	<b>7,281</b>	<b>8,098</b>	<b>23,551</b>	<b>6,167</b>	<b>6,272</b>	<b>7,273</b>	<b>7,513</b>	<b>29,740</b>	<b>35,264</b>	40,717	49,155	54,698	64,699	71,810	72,454
Operating income (Loss)	(14,841)	(4,562)	(3,464)	(2,469)	(2,929)	(13,424)	(488)	128	(873)	(1,113)	(2,346)	(465)	8,803	24,887	34,067	53,489	66,003	64,746
Financial Income (expense)	445	(244)	234		112	327	(197)											
Tax Benefit	153	79	72		(79)	-54	(4)											
<b>Total other income</b>	<b>598</b>	<b>79</b>	<b>72</b>	<b>-</b>	<b>(79)</b>	<b>-54</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>0</b>	-	-	-	-	-	-
<b>Pretax Income</b>	<b>(13,125)</b>	<b>(4,727)</b>	<b>(3,158)</b>	<b>(2,469)</b>	<b>(2,896)</b>	<b>(13,151)</b>	<b>(689)</b>	<b>128</b>	<b>(873)</b>	<b>(1,113)</b>	<b>(2,346)</b>	<b>(465)</b>	8,803	24,887	34,067	53,489	66,003	64,746
Income Tax Benefit (Provision)	-	-	-	-	-	-	-	-	-	-	-	(46)	1,761	7,466	12,945	20,326	25,081	24,603
<b>Tax Rate</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>	20%	30%	38%	38%	38%	38%
<b>GAAP Net Income (loss)</b>	<b>(13,125)</b>	<b>(4,727)</b>	<b>(3,158)</b>	<b>(2,370)</b>	<b>(2,896)</b>	<b>(13,151)</b>	<b>(689)</b>	<b>128</b>	<b>(873)</b>	<b>(1,113)</b>	<b>(2,346)</b>	<b>(418)</b>	7,042	17,421	21,121	33,163	40,922	40,143
Deemed Dividend on Preferred Stock																		
<b>GAAP-EPS</b>	<b>(0.48)</b>	<b>(0.16)</b>	<b>(0.10)</b>	<b>(0.07)</b>	<b>(0.09)</b>	<b>(0.42)</b>	<b>(0.02)</b>	<b>0.00</b>	<b>(0.03)</b>	<b>(0.03)</b>	<b>(0.07)</b>	<b>(0.01)</b>	0.21	0.52	0.62	0.96	1.17	1.13
GAAP EPS (dil)	(0.48)	(0.16)	(0.07)	(0.05)	(0.06)	(0.30)	(0.01)	0.00	(0.02)	(0.02)	(0.05)	(0.01)	0.14	0.34	0.41	0.64	0.78	0.75
Weighted shares basic	28,022	30,603	32,000	32,032	32,064	31,675	32,385	32,417	32,449	32,482	32,433	32,856	33,284	33,718	34,157	34,603	35,054	35,510
Weighted shares dil	28,022	30,603	48,000	48,048	48,096	43,687	48,577	48,626	48,674	48,723	48,650	49,284	49,926	50,577	51,236	51,904	52,580	53,266

Source: Dawson James estimates, company reports

**Important Disclosures:**

**Price Chart:**



**Price target and rating changes over the past three years:**

Initiated – Buy – January 31, 2022 – Price Target \$6.0  
 Update Report – February 17, 2022 – Price Target \$6.0  
 Update Report – March 29, 2022 – Price Target \$6.0  
 Update Report – April 22, 2022 – Price Target \$6.0  
 Update Report – May 23, 2022 – Price Target \$6.0  
 Update Report – July 6, 2022 – Price Target \$6.0  
 Update Report – August 31, 2022 – Price Target \$6.0  
 Update Report – September 22, 2022 – Price Target \$6.0  
 Rating Change – Buy to Neutral October 28, 2022 – Price Target NA  
 Update Report – January 20, 2023 – Price Target NA  
 Update Report – January 26, 2023 – Price Target NA  
 Update Report – April 7, 2023 – Price Target NA  
 Update Report – April 14, 2023 – Price Target NA  
 Update Report – May 31, 2023 – Price Target NA  
 Update Report – July 10, 2023 – Price Target NA

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- 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 22-Jun-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	5.50%
Market Perform (Neutral)	10	28%	2	5.50%
Market Underperform (Sell)	0	0%	0	0.00%
<b>Total</b>	<b>36</b>	<b>100%</b>	<b>4</b>	<b>11.00%</b>

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