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Alarum Technologies Ltd. (ALAR) – Neutral

August 25, 2023

Reports \$6.9M in Revenues but Writes Down CyberKick as a \$6.3M Loss

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Alarum reported \$6.9M in revenues, but at what cost? Sales and Marketing rose from \$2.1M in the prior period to \$4.3M, almost double, but management explains the increase as related to Cyber Kick write downs. The company also wrote off a \$6.3M charge associated with CyberKick as the company downsizes its consumer business. Management is now planning to IPO its subsidiary NetNut – cloud-based digital technologies and analytics - if there is market interest to get it done. Management positions the quarter as “record-breaking”, but we are concerned about all the adjustments – a high Sales and Marketing charge inflated by CyberKick write-downs? This combined with the recent reverse stock split, a tight cash balance, a complicated quarter with adjustments (write-downs), and a planned IPO keeps us on the sidelines.

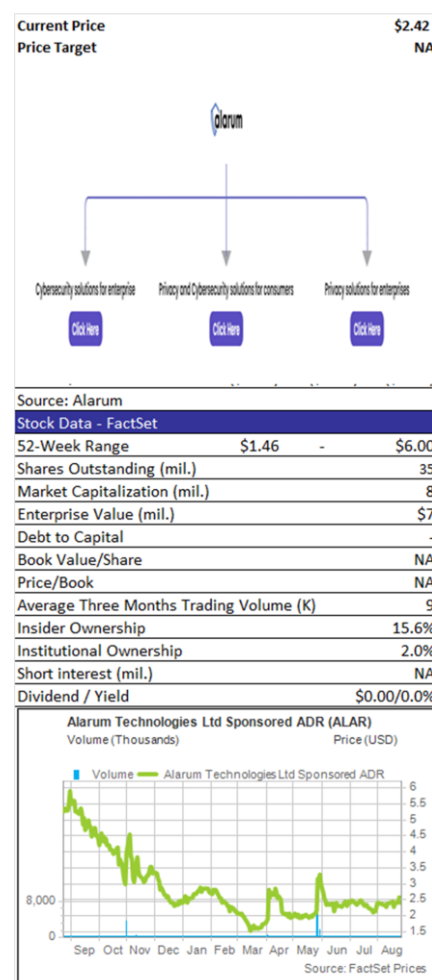
Investment Highlights

Q2 Results: Revenues reach \$6.9M which is positive, but we still do not view this as break-out numbers. Sales & Marketing expenses were provided as \$4.3M, up sharply. Management claims that \$2.2M is related to CyberKick however the company also takes a \$6.3M impairment of goodwill charge in the same period.

Can Alarum Breakout? It is our opinion that Alarum remains capital constrained. The company ended second quarter with \$3.8M in cash. The second quarter results included a lot of adjustments. We are not a fan of adjusted numbers for micro-cap companies. We view the revenues number as positive however the overall picture remains concerning to us as the company how now divested a business it recently acquired and is planning to spin out (IPO) another business, if market conditions allow it. 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.

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.

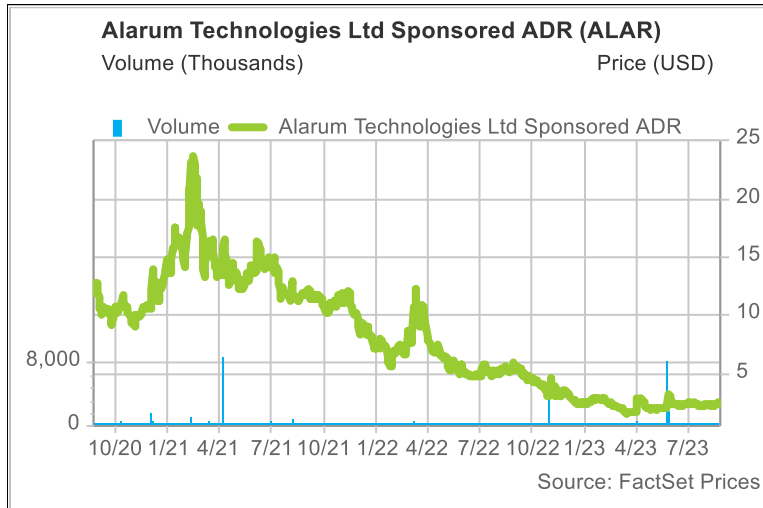
Exhibit 1. Income Statement

Alarum : Income Statement (\$000)														
YE December	2021A	2022A	1Q23A	2Q23A	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Product Revenues (Consumer & Enterprises)	10,281	18,779	5,679	6,985	6,400	6,400	22,159	35,000	50,000	75,000	90,000	120,000	140,000	140,000
Total Product Revenues	10,281	18,779	5,679	6,985	6,400	6,400	25,464	34,300	49,000	73,500	88,200	117,600	137,200	137,200
Product Sales & Royalties & Milestones	10,281	18,779	5,679	6,985	6,400	6,400	25,464	34,300	49,000	73,500	88,200	117,600	137,200	137,200
Expenses														
Cost of goods sold	5,145	8,652	1,927	2,463	2,257	2,257	8,903	10,290	14,700	22,050	26,460	35,280	41,160	41,160
	50%	46%	30%	35%	35%	35%	35%	30%	30%	30%	30%	30%	30%	30%
Research and Development	4,771	4,033	1,062	886	1,059	1,101	4,235	4,446	4,669	4,902	5,147	5,405	5,675	5,959
Selling & Marketing	8,348	12,187	2,183	4,289	3,169	3,295	12,674	13,181	13,709	14,257	14,827	15,420	16,037	16,679
General & Administrative	6,858	6,792	995	1,291	1,766	1,837	7,064	7,346	7,640	7,946	8,264	8,594	8,938	9,295
Impairment - Goodwill				6,311			6,311							
Total expenses	25,122	23,551	6,167	12,777	8,250	8,490	32,876	35,264	40,717	49,155	54,698	64,699	71,810	72,454
Operating income (Loss)	(14,841)	(13,424)	(488)	(8,255)	(1,850)	(2,090)	(12,683)	(465)	8,803	24,887	34,067	53,489	66,003	64,746
Financial Income (expense)	445	327	(197)	313										
Tax Benefit	153	-54	(4)	242										
Total other income	598	-54	(4)	242	-	-	0	0	-	-	-	-	-	-
Pretax Income	(13,125)	(13,151)	(689)	(7,700)	(1,850)	(2,090)	(12,683)	(465)	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
Tax Rate	0%	0%	0%	0%	0%	0%	0%	10%	20%	30%	38%	38%	38%	38%
GAAP Net Income (loss)	(13,125)	(13,151)	(689)	(7,700)	(1,850)	(2,090)	(12,683)	(418)	7,042	17,421	21,121	33,163	40,922	40,143
Deemed Dividend on Preferred Stock														
GAAP-EPS	(0.48)	(0.42)	(0.02)	(0.23)	(0.06)	(0.06)	(0.39)	(0.01)	0.21	0.52	0.62	0.96	1.17	1.13
GAAP EPS (dil)	(0.48)	(0.30)	(0.01)	(0.16)	(0.04)	(0.04)	(0.26)	(0.01)	0.14	0.34	0.41	0.64	0.78	0.75
Weighted shares basic	28,022	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	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
 Update Report – August 25, 2023 – Price Target NA

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Information about valuation methods and risks can be found in the "Valuation" and "Risk Analysis" sections of this report.

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Ratings Definitions:

- 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.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 22-Aug-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	65.70%	3	8.60%
Market Perform (Neutral)	12	34.30%	3	8.60%
Market Underperform (Sell)	0	0%	0	0.00%
Total	35	100%	6	17.20%

Analyst Certification:

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