

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERALL PERFORMANCE

Vaccine rollouts have prompted the ongoing reopening of the economy, spurring further gains in equity markets in Q2 2021. However, as the second quarter went on, the pace of improvement for small and mid-cap companies trailed that of larger-cap stocks and broader equity markets, evidenced by the returns of the Russell 2000 index compared to the S&P 500. Senvest Capital ("Senvest" or the "Company") had a strong start to the second quarter but levelled off in June due to the underperformance of the smaller companies relative to the bigger ones.

Some of the largest holdings as at June 30, 2021 were, Ebay (EBAY), Paramount Resources (POU), Arc Resources (ARX) which merged with Seven Generations Energy (VII) in April 2021, Tower Semiconductors (TSEM), Capri Holdings (CPRI), and Marriot Vacations (VAC). (When the Company refers to its portfolio of holdings, the reference is to its aggregate portfolio including those in the funds that are consolidated into the accounts of the Company.)

Canadian oil and gas exploration and development companies Paramount Resources ("POU") and Seven Generations ("VII") were both top performers in Q2 2021. Both benefited from an increased West Texas Intermediate ("WTI") crude oil outlook; 12-month strip prices increased from \$57 to \$69 per barrel, likely on the expectation of increased demand (growing global economic activity as vaccines roll out). Each company reported positive events as well.

POU's stock price surged +68% in the quarter while ARX increased by 36%. Publicly available gas processing data revealed that POU's Karr asset, within Alberta's Montney oil patch, likely achieved record production in March, significantly ahead of both company guidance and consensus. This was validated in the company's 1Q21 earnings report several weeks later. We believe Paramount's flagship Karr asset is one of the top shale plays in all of North America, not just Canada. Further, the Company confirmed it can sustain its recently achieved production plateau of 40K barrels per day for more than 20 years. At a WTI price of US \$55, the Karr asset generates free cash flow (after both growth and maintenance capex) of \$260 million to \$290 million. Applying a conservative 10x multiple to this, we believe that Karr alone is worth \$2.6B to \$2.9B, which is more than the current enterprise value of the entire company (implying the rest of the company is free).

Paramount also announced i) a sustainable dividend, ii) a share repurchase program, and iii) the receipt of \$67M cash due to a legal settlement. Supported by Karr's strong free cash flow, the company can now sustainably pay a modest dividend, in addition to continued deleveraging of its balance sheet. After paying down debt, we expect Paramount to use excess cash flow to repurchase shares. The dividend announcement is an extremely positive development due to the perceived transition from a junior E&P 'show me' story, to a mature company that can grow sustainably while still returning capital to shareholders.

Arc Resources had announced it acquired Seven Generations, a core Senvest name, for all stock in 1Q21 and closed the transaction on time in 2Q21. On the first earnings call after completing the transaction, ARX increased its 2021 free cash flow guidance. Further, when the transaction was originally announced, ARX guided to \$110M of synergies and \$1-1.1B in 2021 capex. Upon closing the transaction, the Company increased its synergy target to \$160M, and decreased its 2021 capex budget by \$50M to \$100M. This incremental cash

flow will be used to further de-lever the balance sheet and pulls forward the timeline for capital being returned to shareholders.

EBAY was up +14% in the quarter, primarily due to two M&A related announcements and the resulting impact to its buyback program. Most importantly, EBAY announced it completed the sale of its Classifieds business to Adevinta (“ADE NO”). This transaction was initially announced in July 2020, at a value of \$9.2B (\$2.5B in cash and \$6.7B in stock). Since then, ADE NO’s stock price has appreciated by +61%, and EBAY’s \$6.7B of share value has increased to \$10.8B. Further, to assuage regulators, EBAY agreed to sell 25% of its ADE NO position (lowering its ownership from 44% to less than 33%) within 18 months. At current prices, this is worth approximately \$2.7B, or \$2.2B net of tax. We expect this additional \$2.2B of cash to be used for share repurchases in 2022.

Further, buried in the Classifieds sale press release, EBAY increased its 2021 share repurchase guidance by \$3B, from \$2B to \$5B. \$2B of the increase is from Classifieds sale proceeds, and \$1B is from increased leverage (eBay will remain well within investment grade ratios). Given the company repurchased \$300M in Q1, and guided to \$400M in Q2, we expect approximately \$4.3B to be repurchased in 2H21. This equates to approximately 9% of its market cap at the time of the announcement – quite a large buyback.

EBAY also announced the sale of 80% of its South Korea business, for \$3B in cash. Like Classifieds, this subsidiary is non-core and has significant strategic value to its competitors. We calculate the Korea business sold for around 35x operating income, while EBAY is currently trading for around 13x operating income. Further, Korea operating margins are around 7-8%, versus EBAY’s core business at 35%. Bottom line, this transaction is incredibly accretive. We expect the sale to close in late 2021 or early 2022, and for EBAY to use the after-tax proceeds of roughly \$2.4B to buy back stock in 2022.

Given the pending ADE NO share sales (\$2.2B), Korea proceeds (\$2.4B), and future free cash flow (at least \$2B), we expect EBAY to repurchase more than \$6.6B of stock in 2022. This would equate to an additional 14% of today’s market capitalization. Further, management will be able to focus entirely on turning around the newly streamlined core business.

While EBAY will be lapping unprecedentedly difficult growth comps for the rest of the year, and the company will likely report negative GMV growth, we believe EBAY’s 2021 GMV will still be significantly ahead of 2019. This will prove that management’s initiatives are having a positive effect on GMV growth, and that 2020 performance was not entirely transitory. Further, we believe EBAY’s GMV will return to modest growth in 2022, which will be a significant catalyst for multiple expansion.

Apparel, footwear, and accessories designer Capri Holdings’ (“CPRI”), owner of the Michael Kors, Versace and Jimmy Choo brands, stock rose +12%. CPRI reported its fiscal Q4 earnings that trounced expectations with flat revenue beating consensus expectations of a -14% decline and adjusted EPS of \$0.38 beating the Street at \$0.01. Importantly, the company hosted an Investor Day on June 29th which highlighted management’s vision for the medium- and long-term prospects of the company. The Investor Day was better than anticipated. CPRI guided F2023 (YE March 2023) EPS to ~\$5/share vs. the Street at \$4.70/share and outlined “future” revenue of \$7B with 20% operating margins. We believe those metrics translate into ~\$8/share of earnings power within the next 5 years. At a closing price in the quarter of \$57.19, shares are trading at an undemanding 7x medium term earnings power.

Crypto bank and inter-exchange payments network Silvergate Capital (“SI”) fell -20% in the quarter, due to the deteriorating cryptocurrency price and volume backdrop. While SI’s share price generally follows the price of crypto assets, deposit growth is driven by institutional and retail trading activity. SI acts as the on and off-ramp for fiat currencies into the crypto world, allowing institutions to move money onto and between exchanges 24/7. This is a must-have capability for two types of SI customers: retail trading platforms (Robinhood, for example) and high frequency traders (“HFTs”). The former needs to have fiat ready to be sent on-exchange over the weekend when a significant amount of retail trading occurs and when the traditional banking system is closed. HFTs need to be able to move their money quickly between exchanges to capture various arbitrage opportunities before they disappear.

The recent sell-off in crypto began with the Chinese government banning bitcoin mining, under the guise of limiting carbon emissions. This later expanded into blocking cryptocurrency exchanges in search engine results, suspending social media accounts of crypto influencers, and going after OTC desks, citing concerns over excess speculation and money laundering. The one common thread throughout this timeline is the continued testing of China’s new central bank digital currency (“CBDC”). Unlike most blockchains, which are public and permissionless, China’s new CBDC will be both private and permissioned: the immutable record of every transaction will be subject to scrutiny, but only by the proper authorities. We are of the opinion that their agenda here is twofold: 1) pave the way for China’s CBDC, and 2) stem the flow of money bypassing capital controls via cryptocurrencies.

Given east Asia accounts for a third of all crypto value sent and received, this likely sparked the recent selloff in Bitcoin and other digital assets. Retail trading volume typically follows price performance, and HFT activity generally chases market inefficiencies caused by retail investors. Levered losses likely caused forced selling by some retail investors, meaning favorite arbitrage opportunities such as the “basis trade” dried up. As a result, June crypto exchange volumes fell to ~\$960bn1, down -56% from \$2.2tn in May.

Beyond these unfavorable business dynamics, SI did announce a new positive development: a partnership with the Diem Association (“Diem”). Diem is a project aiming to leverage blockchain technology, in the form of stablecoins (crypto backed 1:1 with dollars), for commerce and cross-border payments. It is one of the longest awaited projects in crypto, and the association boasts non-crypto-native members such as Facebook, Farfetch, Lyft, Uber, Shopify, and Spotify. Unlike the existing banking system which operates 9-5, Monday through Friday (and settles even slower), blockchain transactions can be settled in seconds. They’re faster, cheaper, and more transparent. The stablecoin value proposition has been validated by crypto traders and we believe that commerce, P2P payments, and remittance are a few of the first real-world applications of this new technology. SI will be acting as both the transaction bank (creating and redeeming stablecoins) and as the reserve bank (holding and investing the dollars backing the stablecoins).

Overall, while 2Q was favorable in the aggregate given record exchange volumes in April and May, we decided to exit almost the entire position given the deteriorating backdrop into June and Q3. We remain bullish on blockchain technology, specifically the Diem partnership, which validated our thesis that SI is “best-in-class” among crypto peers. That said, the current business model’s leverage to trading activity currently outweighs this potential upside.

A private investment in Canadian-based MDA (“MDA CT”), which makes satellite components and provides geo-observation services, among other space-related businesses, went public and we added to the investment on the IPO. The private equity moved from a Level 3 classification to a Level 2 due to the holding period restriction existing private company investors face on an IPO. The classification will shift to Level 1 in Q4 when the restriction falls off.

The investment in videogame retailer Gamestop (“GME”) contributed approximately 40% of the net change in fair value of equity investments and other holdings for the year to date. Although we discussed this investment at length with our first quarter results the impact it has had on our year to date results necessitate that we repeat that discussion for the rest of the year. The text below is from our Q1 MDA.

“GME’s financial results and its stock price had been suffering for years for several reasons. Most notably, the late-stage maturation of the gaming console cycle and the increased digital distribution of video games adversely affected the company’s retail and physical disc-based distribution business model. The Covid-19 pandemic exacerbated GME’s issues as mandated economic shutdowns led to the closing of retail stores and as stay-at-home consumers increasingly downloaded games digitally. However, a reconstituted board and new executive team came in during 2019. They started to implement meaningful changes in the business, including cost-cutting, the sale of assets, reduction in working capital, a significant reduction in debt, and the buyback of stock. These changes positioned the company to capitalize on the new console cycle and fortuitously enabled it to better handle the challenges posed by Covid-19. Moreover, these are some of the hallmarks of change and transformation that we look for in the investment process.

Two additional pieces of our fundamental value case included the imminent launch of a new gaming console cycle by Microsoft and Sony, which we believed would catalyze sales at Gamestop, and the involvement of an activist investor, Ryan Cohen, the co-founder of Chewy.com, a leading online retailer of pet supplies (and also originally from Montreal). Cohen not only had the experience of beating Amazon in e-commerce, but he also made a fortune selling Chewy.com to Petsmart. We believed that if Cohen were to become more involved with the company, he could provide valuable input as well as credibility in any plan to transform Gamestop’s business model. Such a plan would entail evolving beyond physical retail by leveraging relatively nascent e-commerce and digital strategies. We also thought GME’s 64-million-member loyalty program and its preeminent online gaming publication “Game Informer” represented underappreciated assets.

We also believed that Wall Street sell side estimates significantly underestimated Gamestop’s future earnings and cash flow potential once new console inventory became readily available. While we established the core of our investment in the fourth quarter, all but one (of eight) analysts had either a “hold” or “sell” recommendation on the stock. The disconnect between consensus expectations and what our research suggested helped support our conviction in the fundamental, value-based investment thesis.

A final important consideration in our thesis was the unprecedented level of short interest in GME shares, with more than 100% of shares outstanding short and an even greater amount of the effective “float” being short. We believed that GME was the most shorted stock on the US market, and in the entirety of all our careers, we had never seen such a level of short interest. This setup gave GME “coiled spring” potential for any change in the company’s narrative. From what we could tell, the short thesis was that all videogames would be distributed digitally and that GME would go bankrupt. Our research indicated that GME faced little risk of bankruptcy. We believed that the circumstances for a potential “short squeeze” created a non-trivial chance of a huge upside move and created an asymmetric risk-reward profile in GME.

We spoke to sell side research analysts as well as understanding the short interest/stock loan at the major prime brokers and through third-party short interest data providers. Furthermore, as we do with virtually all our investments, we engage in dialog with management teams and, at times, we engage with other shareholders. In this case, we communicated both with the company and with Ryan Cohen. Based on a letter Cohen sent to the GME board and made public on November 16, 2020, it appeared he was dissatisfied with the company's progress in transforming into an e-commerce and digital gaming outlet and also rejected the company's overtures to him with the offer of a single board seat. After the release of this letter, we felt compelled to communicate our opinion to the company: a potential proxy fight with Ryan Cohen would be damaging to the company, and since Ryan Cohen would win such a battle anyway, it would make sense to settle with him. We believed he could add great experience and credibility in helping the company's transformation. Considering that Senvest was one of GME's largest shareholders with roughly 7% of its shares, we suspect our views carried some weight with the company.

We did not foresee the unusual catalyst for the short squeeze which occurred in GME starting on January 25th. Reddit's "Wallstreetbets" participants effectively crowdsourced the short squeeze that sprang the coiled spring. After trimming the position on Friday, January 22nd, we went into that weekend with greater awareness of what was happening. Pre-market trading, while it officially opens at 4am EST, rarely gets going until an hour before the market opens at 9:30am EST. On Monday, January 25th, however, GME stock began its incredible surge at 4am EST, and we began to trade the stock in those early pre-market hours. We exited roughly half of the position on that day, which provided us with an extraordinary gain from which we had the flexibility to "play with the house's money" and to see where the stock could go. A tweet on Tuesday, January 26th, from social media business darling Chamath Palihapitiya sent the stock higher and we sold more. Finally, after the market close on that same Tuesday, the titan of all business social media, Elon Musk, who has a particular disdain for short sellers who he has regularly battled publicly, tweeted a single word – "Gamestonk!" – which sent GME investors into a frenzy. We believed that things couldn't get any better than that in terms of the immediate term trading mania, and as a result, we sold our remaining GME shares in the post-market trading hours and into Wednesday, January 28th regular trading. Many have questioned when the individual investor would come back to the stock market. It appears that the individual investor is back with a vengeance, armed with the power of the internet."

Senvest recorded net income attributable to common shareholders of \$150.7 million or \$60.29 per basic and diluted common share for the second quarter ended June 30, 2021. This compares to a net income attributable to common shareholders of \$161.2 million or \$60.85 per basic and diluted common share for the quarter ended June 30, 2020. The second quarter of 2020 reflected the beginning of the market bounce back from the depths of the pandemic and outperformed the current year second quarter. For the quarter, the US dollar weakened against the Canadian dollar and the result was a currency translation loss of about \$15.5 million. This amount is not reported in the Company's statement of income rather it's reflected in its statement of comprehensive income. As a result, the comprehensive income attributable to common shareholders was \$135.2 million at the end of the second quarter.

The Company's income from equity investments was the biggest contributor to the results. The net change in equity investments and other holdings including securities sold short and derivative liabilities totaled \$435.6 million in the current quarter versus \$406.6 million in June 2020.

The Senvest Master Fund (Senvest Partners Fund) is focused primarily on small and mid-cap companies. The fund recorded a return of 8.94% net of fees in the second quarter and 81.83% for the year to date. With most of the long portfolio invested in small and mid-cap stocks, the fund outperformed its most relevant benchmark, the

Russell 2000 for the quarter and for the year to date. The fund also outperformed the S&P 500 index for the quarter and for the year to date, but does not consider this index as a benchmark. The fund has issued an institutional share class which requires a minimum investment of \$75 million US, and includes a longer duration element, which further enhances the stability of its capital base and its ability to make long-term investments to help generate returns for the benefit of all of our partners. Senvest's internal capital is subject to the same liquidity provisions of the institutional share class. Due to the extraordinary performance of this fund over the last nine months there will be significant redemptions over the course of this year as certain investors look to "cash in" some of their gains.

The Senvest Technology Partners Fund (prior name Senvest Israel Partners) was initiated in 2003 to focus on investing in Israel related companies. Effective January 1, 2019, the Israel Fund broadened its geographic investment mandate to focus on global technology investments. To better reflect the evolving global complexion of its technology investments, the Israel Fund underwent a name change to Senvest Technology Partners. After investing in Israel-related technology for 15 years, its holdings extend across the global technology universe. The Technology Fund maintains the same investment philosophy and continues to leverage the existing diligence and understanding of global technology and end markets. This fund recorded a return of 3.39% net of fees for the second quarter and 24.59% for the year to date (monthly results of both funds can be found on the Company's website). Both of these funds are consolidated into the accounts of the Company.

The Company has a portfolio of real estate investments as at June 30, 2021. One part of this amount represents investments in different US REITs and partnerships. These REITs and partnerships are not publicly traded and there is no established market for them. The most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties of the REITs and partnerships and the distribution to its holders. Also, there are minority interests in private entities whose main assets are real estate properties. As described above for the REITs and partnerships, the most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties.

The Company also has investment properties in lands and buildings--specifically self-storage units in Madrid, Spain. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties were remeasured at fair value, using the fair value model. The fair value is based on external valuations from third party valuers. Gains or losses arising from changes in fair value of investment properties will be included in the Company's net profit or loss.

The Company consolidates the Senvest Management LLC (SML) entity that serves as the investment manager of Senvest Partners and Senvest Technology Partners as well as the general partners of the funds. The portion of the expected residual returns of structured entities that do not belong to the Company is reflected as a non-controlling interest on the statement of financial position. This non-controlling interest is owned by an executive of the Corporation. Most of the equity of Senvest Management LLC reflects its investment in the underlying funds. This non-controlling interest was \$79.1 million as at June 30, 2021 from \$86.7 million as at December 31, 2020.

At the end of June 30, 2021, Senvest had total consolidated assets of \$6,089.0 million versus \$4,066.0 million at the end of 2020. Equity investments and other holdings totaled \$5,882.5 million from \$3,880.0 million in December 2020. The Company purchased \$3,050 million of investment holdings in the first two quarters and sold \$3,285 million of such holdings. The Company's liabilities increased to \$4,231.5 million this quarter versus \$2,919.9 million in 2020. The main difference between the periods was a significant increase in the liability for redeemable units due to the funds' appreciation. There was also an increase in securities sold short

and derivative liabilities of about \$185m from last December but this was offset by a 276m reduction in the due to broker. The proceeds of securities sold short were \$4,225.4 million and the amount of shorts covered was \$4,061 million in the first two quarters. Overall, the trading figures were more than the corresponding amounts for the prior year's quarters.

#### Functional currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the parent company is the US dollar.

#### Presentation currency

The Company has adopted the Canadian dollar as its presentation currency, which in the opinion of management is the most appropriate presentation currency. Historically, the Company's consolidated financial statements have been presented in Canadian dollars, and since the company's shares are listed on a Canadian stock exchange, management believes it would better serve the use of shareholders to continue issuing consolidated financial statements in Canadian dollars. The US dollar consolidated financial statements are translated into the presentation currency as follows: assets and liabilities – at the closing rate at the date of the consolidated statement of financial position; and income and expenses – at the average rate for the period. All resulting changes are recognized in other comprehensive income (loss) as currency translation differences. Equity items are translated using the historical rate

#### Risks

##### Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk, currency risk and equity price risk), credit risk and liquidity risk.

The Company's overall risk management program seeks to maximize the returns derived for the level of risk to which the Company is exposed and seeks to minimize potential adverse effects on the Company's financial performance. Managing these risks is carried out by management under policies approved by the Board.

The Company uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

##### Market risk

##### Fair value and cash flow interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The majority of the Company's debt is based on floating rates which expose the Company to cash flow interest rate risk. The Company does not have a long-term stream of cash flows that it can match against this type of fixed debt, so it prefers to use short-term floating rate debt. The Company does not mitigate its exposure to interest rate fluctuation on floating rate debt. If interest rates spike, then the Company could enter into interest rate swaps or more probably just reduce its debt level. As at June 30, 2021, the Company had listed sufficient equity securities that it can sell to reduce its floating rate debt to zero.

## Currency risks

Currency risk refers to the risk that values of monetary financial assets and liabilities denominated in foreign currencies will vary as a result of changes in underlying foreign exchange rates. The Company's functional currency is the US dollar. The Company has foreign currency exposure to the Canadian dollar, the British pound sterling, the Euro, and the Israeli shekel.

## Equity price risk

Equity price risk is the risk that the fair value of equity investments and other holdings and equities sold short and derivatives will vary as a result of changes in the market prices of the holdings. The majority of the Company's equity investments and other holdings and all of the securities sold short are based on quoted market prices as at the consolidated statement of financial position date. Changes in the market price of quoted securities and derivatives may be related to a change in the financial outlook of the investee entities or due to the market in general. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the US dollar, the price, initially expressed in a foreign currency and then converted into US dollars, will also fluctuate because of changes in foreign exchange rates.

Securities sold short represent obligations of the Company to make future delivery of specific securities and create an obligation to purchase the security at market prices prevailing at the later delivery date. This creates the risk that the Company's ultimate obligation to satisfy the delivery requirements will exceed the amount of the proceeds initially received or the liability recorded in the consolidated financial statements. In addition, the Company has entered into derivative financial instruments, which have a notional value greater than their fair value, which is recorded in the financial statements. This creates a risk that the Company could settle these instruments at a value greater or less than the amount that they have been recorded in the financial statements.

The Company's equity investments and other holdings have a downside risk limited to their carrying value, while the risk of equities sold short and derivatives is open ended. The Company is subject to commercial margin requirements which act as a barrier to the open-ended risks of the securities sold short and derivatives. The Company closely monitors both its equity investments and other holdings and its equities sold short and derivatives.

The impact of a 30% change in the market prices of the Company's equity holdings with quoted value and derivatives, securities sold short and derivative liabilities as at June 30, 2021 would be as follows (in thousands):

	Fair value	Estimated fair value 30% price increase	Estimated fair value 30% price decrease
Equity investments and other holdings			
Listed equity securities and derivatives	5,355,357	6,961,964	3,748,750
Securities sold short and derivative liabilities	(503,841)	(654,994)	(352,689)
Pre-tax impact on net earnings		1,455,455	(1,455,455)

## Liquidity risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial obligations. The Company's largest assets are equity investments and other holdings. Most of these assets are made up of

equities in public holdings which can be liquidated in a relatively short time. Due to its large holding of liquid assets, the Company believes that it has sufficient resources to meet its obligations.

All financial liabilities other than securities sold short and derivative liabilities, liability for redeemable units and some other payables as at the consolidated statement of financial position date mature or are expected to be repaid within one year. The liquidity risk related to these liabilities is managed by maintaining a portfolio of liquid investment assets.

#### Credit risk

Credit risk is the risk that a counterparty will fail to fulfill its obligations under a contract and will cause the Company to suffer a loss.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is executed only once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

The Company is also exposed to counterparty credit risk on its cash and cash equivalents, restricted short-term investment and due from brokers.

From time to time, the Company enters into derivative financial instruments consisting primarily of options and warrants to purchase or sell equities, equity indices and currencies, equity swaps, foreign currency forward contracts, and foreign currency futures contracts. These derivative instruments are marked to market. There is deemed to be no credit risk for futures and certain options that are traded on exchanges. The warrant contracts and certain options that are not traded on an exchange allow the Company to purchase underlying equities at a fixed price. Equity swaps represent future cash flows that are agreed to be exchanged between the Company and counterparties at set dates in the future. Foreign currency forward contracts are contracts to buy or sell foreign currencies at a specified price at a future point in time.

#### Capital risk management

The Company's objective when managing its capital is to maintain a solid capital structure appropriate for the nature of its business. The Company considers its capital to be its total shareholders equity. The Company manages its capital structure in light of changes in economic conditions. To maintain or adjust its capital structure, the Company initiates normal course issuer bids or adjusts the amount of dividends paid. The Company monitors capital on the basis of its net liabilities-to-capital ratio, which is as follows (in millions):

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Total net liabilities	\$4,210.1	\$2,893.7
Total equity	\$1,857.6	\$1,146.1
Net liabilities to capital ratio	2.27	2.52

In the past the Company's objective was to maintain a debt-to-capital ratio below 2.0. The Company believes that limiting its debt-to-capital ratio is the best way to monitor risk. The Company's debt to capital ratio was at 2.27 at the end of June 2021 from 2.52 at the end of 2020. However, the Company is cognizant of the fact that the largest liability on its financial statements, the "Liability for redeemable units" is considered "equity" and

not a liability in the individual financial statements of the underlying funds that it consolidates. As a result the debt to equity ratio of the individual funds is lower than that of the parent company. The Company has concluded that it has been too conservative in limiting its net liabilities to capital ratio at 2.0 and believes that a higher ratio of 3.0 is more appropriate.

#### Investment Risk

To the extent not discussed above, the Company is subject to additional risks with respect to the investments made.

The value of the Company's portfolio may decrease as well as increase, due to a variety of factors, including general economic conditions, and market factors. Additionally, investment decisions made by the Company may not always be profitable or prove to have been correct. Investment strategies, at any given time, may incur significant losses. Losses can occur for a number of reasons, including but not limited to, an overall decline in the underlying market, a lack of liquidity in the underlying markets, excessive volatility in a particular market, government intervention or monetary and/or fiscal policies of a specific region or country. The profitability of a significant portion of the Company's investments also depends to a great extent upon the Company's ability to correctly assess the future course of the price movements of securities and other investments. There can be no assurance that the Company will be able to accurately predict these price movements.

The Company's investment strategy is speculative and involves risk. The Company trades in options and other derivatives, as well as using short sales and utilizing leverage. The portfolio may not be diversified among a wide range of issuers or industries. In addition, the Company may take concentrated positions in its high conviction ideas, invest in high yield securities or invest in foreign markets outside the US and Canada. Accordingly, the investment portfolio may be subject to more rapid change in value than would be the case if the Company were required to maintain a wide diversification in the portfolios among industries, areas, types of securities and issuers.

The Company may make investments in the securities of high growth companies. More specifically, the Company may have significant investments in smaller-to-medium sized companies with market capitalizations of less than \$2 billion US. While smaller companies may have potential for rapid growth, they often involve higher risks because they lack the management experience, financial resources, product diversification, and competitive strengths of larger corporations. These factors make smaller companies far more likely than their larger counterparts to experience significant operating and financial setbacks that threaten their short-term and long-term viability. In addition, in many instances, the frequency and volume of their trading is substantially less than is typical of larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations and exiting investments in such securities at appropriate prices may be difficult, or subject to substantial delay. Furthermore, some of the portfolio may be invested in technology, technology-related markets and biotech. These types of companies may allocate greater than usual amounts to research and product development. The securities of such companies may experience above-average price movements associated with the perceived prospects of success of the research and development programs. Also, these companies could be adversely affected by lack of commercial acceptance of a new product or products or by technological change and obsolescence. Some of these companies may have limited operating histories. As a result, these companies may face undeveloped or limited markets, have limited products, have no proven profit-making history, operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and/or be in the developmental stages of their businesses.

The Company tries to manage the above risks by monitoring its leverage, actively following its investee companies and trying to react to market conditions. At the same time the Company expects its portfolio to exhibit a higher degree of volatility than portfolios that invest in larger more stable companies and that invest within more defined limits. As at June 30, 2021, approximately 83.3% of the Company's portfolio was invested in Level 1 securities. The Company monitors its Level 1 securities as percentage of its total investments; however, it does not have a fixed number that this percentage cannot fall below.

#### Climate Change Risk

Climate change risk refer to the physical risks and transition-related risks related to the changes in climate patterns that may have a significant impact on communities and the economy. While the direct exposure of the Corporation's operations to climate change risk is relatively low, as an investor in equities and other assets, the Corporation could indirectly be impacted by this risk through its portfolio investments.

The Corporation's portfolio investments face the potential direct impact of more frequent and more intense extreme weather events, as well as the potential indirect impact of any related supply chain disruptions. The exposure of the Corporation's portfolio investments to climate change risk also arises from the movement toward a low-emission economy, which may result in increased reputational, market, regulatory, policy, legal and technology-related risks. Existing portfolio investments in carbon-intensive industries and in other markets which are dependent on such industries may be more exposed to such transitional risks as a result of significant changes in customer perceptions and preferences, the increasing cost of carbon emissions and competition from renewable energy.

#### Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates applied by management that most significantly affect the Company's consolidated financial statements. These estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Consolidation of entities in which the Company holds less than 50% of the voting rights.

Management considers that the Company has de facto control of Senvest Management LLC (SML), RIMA Senvest Master Fund GP LLC, and Senvest Technology Partners GP LLC., three legal entities wholly owned by an executive of the Company, because of the Company's board representation and the contractual terms of the investment advisory agreement. SML is the investment adviser to the Funds, whereas RIMA Senvest Master Fund GP LLC is the General Partner of Senvest Master Fund LP and Senvest Technology Partners GP LLC is the General Partner of Senvest Technology Partners Master Fund LP.

Management considers that the Company has control of Senvest Master Fund LP, Senvest Technology Partners Master Fund LP and Senvest Cyprus Recovery Investment Partners LP even though the Company has less than 50% of the voting rights in each of the Funds. The Company assessed that the removal rights of non-affiliated unitholders are exercisable but not strong enough given the Company's decision-making authority over relevant activities, the remuneration to which it is entitled and its exposure to returns. The Company, through its structured entity, is the majority unitholder of each of the Funds and acts as a principal while there are no other unitholders forming a group to exercise their votes collectively.

### Fair value estimates of investment properties

The Company has adopted the fair value model in measuring its investment properties. The fair value of the investment properties is performed by external independent valuers located in the area of the properties. Inputs used in the property valuation models are based on appropriate assumptions that reflect the type of property and location. Management reviews the assumptions made and models used to ensure they correlate with their expectation and understanding of the market. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### Fair value estimates of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. To the extent practical, models use only observable data; however, areas such as credit risk (both the company's own credit risk and counterparty credit risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### Financial instruments in Level 1

The fair value of financial assets and financial liabilities traded in active markets are based on quoted market prices at the close of trading on the consolidated statement of financial position date. The quoted market price used for financial assets and financial liabilities held by the Company is the close price. Investments classified in Level 1 include active listed equities and derivatives traded on an exchange. The financial assets classified as Level 1 were approximately 83.3% of the total financial assets.

### Financial instruments in Level 2

Financial instruments classified with Level 2 trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or valuation techniques that use market data. These valuation techniques maximize the use of observable market data where available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. These include corporate bonds, thinly traded listed equities, over-the-counter derivatives and private equities.

The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each year-end date. Valuation techniques used for non-standardized financial instruments such as options and other over-the-counter derivatives include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The financial assets classified as Level 2 were approximately 11% of the total financial assets.

### Financial instruments in Level 3

Investments classified in Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments consist mainly of unlisted equity investments and real estate investments. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. The financial assets classified as Level 3 were approximately 5.7% of the total fair value of financial assets.

Level 3 valuations are reviewed by the Company's Chief Financial Officer (CFO), who reports directly to the Board on a quarterly basis in line with the Company's reporting dates. On an annual basis, close to the year-end date, the Company obtains independent, third party appraisals to determine the fair value of the Company's most significant Level 3 holdings. The annual valuations of the significant level 3 holdings are carried out externally. The Company's CFO reviews the results of the independent valuations. Emphasis is placed on the valuation model used to determine its appropriateness, the assumptions made to determine whether it is consistent with the nature of the investment, and market conditions and inputs such as cash flow and discount rates to determine reasonableness.

As at June 30, 2021, Level 3 instruments are in various entities and industries. The real estate investments are made up of investments in private real estate companies, and in real estate income trusts and partnerships. For the main Level 3 instruments, the Company relied on appraisals carried out by independent third party valuers or on recent transactions. There was no established market for any of these investments, so the most likely scenario is a disposal of the underlying assets. For the investments in real estate income trusts and partnerships, the Company relied mainly on audited financial statements, valuing the assets at fair value. The most likely scenario is an eventual sale of the underlying properties and their subsequent distribution to the holders.

### Liability for redeemable units

Liability for redeemable units represents the units in Senvest Master Fund, L.P., Senvest Technology Partners Master Fund, L.P. (formerly Senvest Israel Partners Master Fund, L.P.) and Senvest Cyprus Recovery Investment Partners, L.P. Fund (collectively the Funds or individually a Fund) that are not owned by the Company. Senvest Master Fund, L.P. and Senvest Technology Partners Master Fund, L.P. units may be redeemed as of the end of any calendar quarter, however for a particular class there is a maximum quarterly redemption of 17% of the investor units and a maximum annual redemption of 34% of the investor units. Redemptions made within the first 24 months will be subject to a redemption fee of 3% to 5% which is payable to Senvest Master Fund, L.P. and Senvest Technology Partners Master Fund, L.P. In addition, there are notice periods of 60 days that must be given prior to any redemption. Senvest Cyprus Recovery Investment Partners, L.P. Fund has units that can be redeemed semi-annually with a 120 day notice. These units are recognized initially at fair value, net of any transaction costs incurred, and subsequently units are measured at the redemption amount.

Redeemable units are issued and redeemed at the holder's option at prices based on each Fund's net asset value per unit at the time of subscription or redemption. Each Fund's net asset value per unit is calculated by dividing the net assets attributable to the holders of each class of redeemable units by the total number of outstanding redeemable units for each respective class. In accordance with the provisions of the Funds' offering documents, investment positions are valued at the close price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

## Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provisions for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

### QUARTERLY RESULTS

(In thousands except for earnings(loss) per share information)

Year	Total revenue and investment gains(losses)	Net income (loss)- common shareholders	Earnings(loss) per share
2021-2	440,016	150,715	60.29
2021-1	1,885,731	574,498	224.27
2020-4	1,172,742	363,574	138.36
2020-3	118,853	28,889	10.83
2020-2	418,401	161,247	60.85
2020-1	(970,591)	(341,993)	(129.38)
2019-4	354,560	85,508	31.98
2019-3	76,376	21,091	7.86

The Company has had wide swings in profitability from quarter to quarter in the past two years, as seen above. The profit has fluctuated a significant amount quarter to quarter. The highest earning quarter showed a profit of over \$570 million and the least profitable quarter had a loss of over \$340 million. These wide swings are primarily due to the large quarterly mark to market adjustments in the Company's portfolio of public holdings. However, we expect the volatility and choppiness of the markets to result in wide profit swings from year to year and from quarter to quarter. Reference is made to the section on Investment risk above.

The Company maintains accounts with several major financial institutions in the U.S. who function as the Company's main prime brokers. The Company has assets with the prime brokers pledged as collateral for leverage. Although the prime brokers are large financial institutions, there is no guarantee that any financial institution will not become insolvent. In addition, there may be practical or time problems associated with enforcing the Company's rights to its assets in the case of such insolvency.

While both the U.S. Bankruptcy Code and the Securities Investor Protection Act seek to protect customer property in the event of a failure, insolvency or liquidation of a broker dealer, there is no certainty that, in the event of a failure of a broker dealer that has custody of the Company's assets, the company would not incur losses due to its assets being unavailable for a period of time, ultimately less than full recovery of its assets, or both. As a significant majority of the Company's assets are in custody with three prime brokers, such losses could be significant.

On August 14, 2020, Senvest commenced a new normal course issuer bid to purchase a maximum of 70,000 of its own common shares until August 13, 2021. This amount was increased by a further 30,000 shares to a total of 100,000 shares on January 22, 2021. There were 97,400 shares repurchased under the current bid. The number of common shares outstanding as at June 30, 2021 was 2,529,124 and as at August 2, 2021 was 2,525,824. There were no stock options outstanding as at June 30, 2021 and none have been issued since 2005.

The Company has financing with a bank, composed of a credit facility and a guarantee facility. A first ranking movable hypothec in the amount of \$30 million on all of its assets has been granted as collateral for both of the facilities. According to the terms of the facilities, the Company is required to comply with certain financial covenants. During the period, the Company met the requirements of all the covenants. The Company also has margin facilities with brokers.

#### Related party transactions

The Company consolidates the Senvest Management LLC entity that serves as the investment manager of Senvest Partners and Senvest Technology Partners as well as the general partners of the funds. The portion of the expected residual returns of structured entities that do not belong to the Company is reflected as a non-controlling interest on the statement of financial position. This non-controlling interest is owned by an executive of the Company and totalled \$79.1 million as at June 30, 2021 from \$48.1 million as at December 31, 2020.

#### Significant Equity Investments

For information on a summary of financial information from certain significant investees please refer to the 2020 audited financial statements. The accounts of Senvest Partners, Senvest Technology Partners and Senvest Cyprus Recovery Investment Fund are consolidated with the Company's accounts.

#### **COVID-19**

Since February 2020, the financial markets have been very volatile in response to the developing COVID-19 pandemic. More specifically, the equity markets and credit markets have experienced significant volatility due to concerns about credit risk and liquidity, amongst others. The Corporation continuously monitors this situation and its potential impact on the Corporation and, more particularly, the Funds. However, it is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 both in the short- and long-term. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and cannot be predicted, including new information which may emerge concerning the severity of this coronavirus and actions taken to contain the COVID-19 or its impact, among others. Such developments, depending on their nature, duration, and intensity, could have a material adverse effect on the business, financial position, results of operations or cash flows of the Corporation.

Operationally, the Corporation continues to function quite well during the current environment and the stay-at-home conditions, as over the past few years the Corporation has planned and tested its systems for remote work-from-home scenarios. The Corporation has moved its technology infrastructure to the cloud almost two years ago and thus far has had no significant issues with its systems operating from home. However, the increased use of electronic and remote communication tools and services may lead to heightened cybersecurity risk.

## **FORWARD LOOKING STATEMENTS**

This MD&A contains “forward looking statements” which reflect the current expectations of management regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as “may”, “would”, “could”, “will”, “anticipate”, “believe”, “plan”, “expect”, “intend”, “estimate”, “aim”, “endeavour”, “likely”, “think” and similar expressions have been used to identify these forward looking statements. These statements reflect our current beliefs with respect to future events and are based on information currently available to us. Forward looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements including, without limitation, those Risk Factors listed in the Company's annual information form. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward looking statements contained in this MD&A. These forward looking statements are made as of August 6, 2021 and will not be updated or revised except as required by applicable securities law.

## **OTHER FINANCIAL INFORMATION**

There is additional financial information about the Company on Sedar at <http://www.sedar.com/> the Company's website at [www.senvest.com](http://www.senvest.com), as well the Company's or Senvest Management's U.S. SEC section 13 and other filings on [www.sec.gov](http://www.sec.gov).

## **INTERNAL CONTROLS**

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2021, that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

***(Signed)***

Victor Mashaal  
**Chairman of the Board and President**

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August 6, 2021

*(Management Discussion and Analysis (“MD&A”) provides a review of Senvest Capital Inc.'s operations, performance and financial condition for the period ended June 30, 2021, and should be read in conjunction with the 2020 annual filings. Readers are also requested to visit the SEDAR website at [www.sedar.com](http://www.sedar.com) for additional information. This MD&A also contains certain forward-looking statements with respect to the Corporation. These forward-looking statements, by their nature necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control may ultimately prove to be incorrect.)*