

## AURA SMART AIR LTD – UPDATE REPORT

12.12.2022



Stock Exchange  
**TASE**



Symbol  
**AUSA**



Sector  
**Technology**



Sub-sector  
**Cleantech**



Stock price target  
**NIS 10.26**



Closing price  
**NIS 0.39**



Market cap  
**NIS 9.58 Mn**



No. of shares  
**24.6 Mn**



Average Daily  
Trading Volume  
**18 stocks**



Stock Performance  
(from Jan. 1, 2022)  
**-94.41%**

Announced an efficiency plan including a reduction in job and salary standards; received several purchase orders from India; price target remains unchanged.

**Aura Smart Air Ltd. (TASE: AUSA)** was established in 2018 to provide an international standard and technology platform to manage air quality in enclosed spaces. The company develops, markets, distributes, and operates platforms for internal air purification in Israel and abroad. The company currently employs approximately 40 employees in Israel, the United States, and India. The technology developed by the company provides a complete solution to the problem of air purification and disinfection in enclosed spaces. The company has intellectual property in registration processes in the form of patents, design, and trademarks.

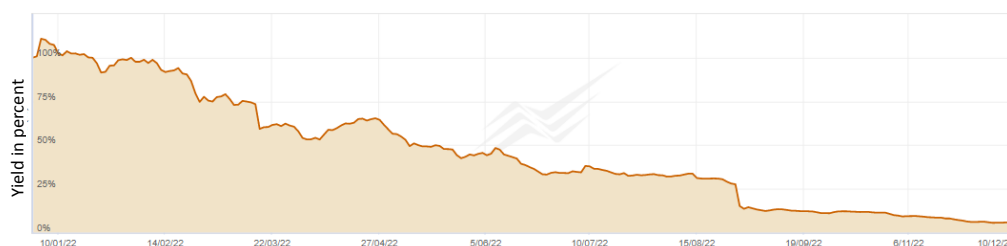
### Q3 and the passing months highlights:

- Announced a comprehensive efficiency plan including a reduction in job standards and reducing executive pay.
- Signed an exclusive distribution agreement for the transportation sector with Delos.
- Filed a claim in the US against a distributor.
- Established a credit line and a long-term loan from a banking corporation.
- Received additional purchase orders in the amount of approximately NIS 2 million as part of the Ministry of Education proposal.
- Disputes between the company and Beit El Industries Ltd. and a dispute between the company and its distributor in Germany.
- The Indian subsidiary entered into an exclusive distribution agreement with Wipro Enterprises Limited.
- The Indian subsidiary received a binding order in the amount of approximately USD 350 thousand to purchase its products from EIH Limited from India.

**Strategy** – Recall that Aura Smart Air offers hardware and software to manage a fleet of products to its customers, focusing on (i) product sales; (ii) services, including spare parts and software; and (iii) data collection and analysis. The company's focus is mainly on the education and transportation segments with an emphasis on the US.

**Bottom line**, the company is advancing with its plans. In the background, positive trends support continued growth (the war in the Ukraine is expected to support the “green” trend, as well as the carbon tax imposed in Europe; on the other hand, the macro-interest rate environment is expected to lower the positive trend). In light of this and the

Year	Revenues (000 US\$)	Operating income (000 US\$)
2021A	10,752	-5,413
2022E	45,369	-3,667
2023E	126,999	1,911



**Key events in the passing months and Q3 2022:**

- On July 17, the company entered into a credit facility agreement with another banking corporation in which the bank provided the company with a USD 2M short-term credit facility for financing recurring invoices and also undertook to provide a USD 4M long-term loan.
- From the end of March until the end of July, the company received additional binding purchase orders within the Ministry of Education's call for proposals in the amount of approx. NIS 2.2M including VAT for the purchase of Aura Air systems, including service and consumable products, from municipalities and towns throughout Israel for the purpose of supplying such systems to educational institutions in these municipalities and towns.
- On August 14, the company announced that it is in litigation with its supplier, Beit El Industries Ltd. due to mutual claims by the parties. On August 21, the company reached an agreement regarding the amount that the company will pay to Beit El as a condition for the suspension of its letter to Beit El, which will amount to USD 750K, and the dates of its payment.
- On August 3, Blnk GMBH announced its decision to unilaterally end its communication with the company. Blnk came on the heels of the German distributor, in everything related to the distribution agreement with the German distributor, after the German distributor entered insolvency proceedings. The cancellation of the agreement is contrary to the provisions of the agreement with the German distributor.
- From the end of July 2022 until October 2, the company received additional binding orders amounting to approximately NIS 2 million including VAT for the purchase of Aura Air systems, including service and consumable products, from municipalities and towns throughout the country for the purpose of supplying such systems to educational institutions in these municipalities and towns.
  - In total, the company received purchase orders, from the publication of the calling voice until October 2, in a total amount of approximately NIS 7.2 million.
- On November 29, the Indian subsidiary - Auraair Private Limited - entered into an exclusive distribution agreement with Wipro Enterprises Limited within the framework of which it was agreed that the distributor will exclusively market and sell the company's products to business and institutional customers in India. It will be clarified that the aforementioned exclusivity is in relation to business and institutional customers only.
  - The contract period is for 3 years and includes the possibility of an extension for a period of another year with the agreement of the parties.
- On December 6, the Indian subsidiary Auraair Private Limited received a binding order in the amount of approximately 350 thousand US dollars to purchase its products from EIH Limited from India, for the immediate supply of Aura Air systems as well as Aura Air device fleet management software.
  - The products are intended for installation and use in 3 hotels of the Oberoi Hotels chain located in Bangalore, Calcutta and Mumbai.

## Investment Thesis

Indoor air purifiers and monitors are gaining widespread popularity due to their effect in reducing asthma and other breathing-related ailments. The impact of COVID-19 has added momentum to the already growing market. Though manufacturers did not expect a manifold growth in 2020, they agree that the growth will be significantly higher than before. The global air purifier market was valued at \$10.38 billion in 2020 and is expected to reach \$21.15 billion by 2027 with a CAGR of 10.7%<sup>1</sup>.

Aura Smart Air Ltd. (TASE: AUSA) was established in 2018 to provide an international standard and technology platform to manage air quality in enclosed spaces. The Company develops, markets, distributes, and operates platforms for internal air purification all over the world. The technology developed by the Company provides a complete solution to the problem of air purification and disinfection in enclosed spaces. The Company has intellectual property in registration processes in the form of patents, designs, and trademarks. The Company's product line includes the Aura Air, Aura Air Mini, filters, and software (a B2B dashboard for fleet management, API capabilities, and analytic tools to the end-users). The unique Aura Air technology provides air purification to both indoor and outdoor pollution. It removes harmful indoor particles and outdoor pollution concerns, including industrial emissions (VOC, PM 2.5, PM10, NO, NOX), global warming (CO, O3 – ozone, temperature, humidity), as well as plants and allergens (grass, pollen).

The Company is built on three main pillars:

1. Air monitoring, purification, and disinfection, using a set of unique technologies that collect pollutants and actively eliminate airborne bacteria, mold spores, fungal spores, and viruses.
2. Artificial intelligence developed to function with a wide variety of building management systems that allow independent automated operations to be performed according to Aura Air's data-based insights.
3. Predictive analysis of indoor and outdoor air quality in real-time based on algorithmic models.

Aura Smart Air offers hardware and software to its customers, with its business divided into three main areas: (a) selling products; (b) services, including spare parts and software; (c) data collection and analysis. Aura Smart Air is distinguished from its competitors due to its low cost, ease of guidance and maintenance, its air quality management platform, and its engineering structure.

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<sup>1</sup> <https://www.prnewswire.com/news-releases/global-air-purifier-market-size-is-projected-to-usd-21-15-bn-by-2027-says-brandessence-market-research-301432392.html>

# 1. Company Overview

## General

Aura Smart Air Ltd. (TASE: AUSA) was established in 2018 to provide an international standard and technology platform to manage air quality in enclosed spaces. The Company develops, markets, distributes, and operates platforms for internal air purification in Israel and abroad. Below is a timeline of the Company's development:

The Company currently employs approximately 50 employees in Israel, the United States, and India. The technology developed by the Company provides a complete solution to the problem of air quality in enclosed spaces by providing 4 unique and patented stages of purification and disinfection. The Company has intellectual property in registration processes in the form of patents, designs, and trademarks.

In order to address various factors of air pollution and the accompanying problems, the Company has developed a platform for managing air quality in enclosed spaces that works to monitor the indoor air quality, filter, and purify it while destroying pests and the various air pollutants. The system, which is automatically synchronized to smart building management systems, is able to effectively filter and purify all pollutants in the enclosed space while monitoring real-time air quality data in order to provide insights and smart recommendations to system users, whether they are private, business, or institutional customers. In addition, the system can provide information and data through the system management software that the Company develops. The Company uses a unique technology that allows it to achieve impressive air purification results by using substances and components that have been found to be effective in neutralizing bacteria, viruses, and parasites that destroy, among other things, the proteins on the cell membrane.

## Pillars of the Company

The Company is built on three main pillars:

1. **Air monitoring, purification, and disinfection**, using a set of unique technologies that collect pollutants and actively eliminate airborne bacteria, mold spores, fungal spores, and viruses.
2. **Artificial intelligence** developed to function with a wide variety of building management systems that allow independent automated operations to be performed according to Aura Air's data-based insights.
3. **Predictive analysis** of indoor and outdoor air quality in real-time based on algorithmic models.

## Clinical trial and collaboration with Sheba Tel Hashomer hospital

A report published by Sheba Tel Hashomer hospital in February 2021 confirms the high purification capabilities of the Company's technology. The results of the study illustrate that the Company's devices are capable of killing a coronavirus (IBV) that is similar in its characteristics to the SARS-CoV-2 virus that leads to an epidemic with an impressive 99.9% efficiency. The results are illustrated in the table below:

Filter	Coronavirus Reduction Ratio (%)
HEPA	99.72%
SCF	99.97%
Sterionizer LP™	99.96%
Sterionizer HP™	99.94%
UVC LED	99.96%

Source: Aura Air

More recently, in October 2021, the Company reported positive results on the purification of indoor air with the SAR-COV-2 virus in a trial conducted in the Innovative Bioanalysis laboratory in California. The trial showed that the Aura Smart Air's purification system destroyed 99.998% of the virus in an enclosed space of 2.5 meters by 2.5 meters and 3 meters high. The Company reported that 30 minutes after the start of the trial, the system had destroyed 87.37% of the virus in the air. News of these findings caused the Company's share price to jump 25%, giving the Company a market cap of NIS 225 million.<sup>2</sup>

## Company strategy

Aura Smart Air offers hardware and software to its customers, with its business split into 3 main areas: (i) HW & SW product sales; (ii) services, including parts and updates; and (iii) data. Aura Smart Air is differentiated from its competition due to its lower cost, ease of installation and maintenance, and engineering structure. The Company's customers include:

- B2B, e.g., office buildings, co-working spaces, multi-family housing units, hotels, pharmacies, nursing homes, shopping centers, elevators
- B2G, e.g., hospitals, educational institutions, public transportation, government offices and buildings
- D2C, e.g., parents, young families, older population, people with respiratory problems or allergies, smart homes

In the U.S., Aura Smart Air intends to begin targeting B2B customers, then transition to B2B2C with brands that sell to private customers, control and automation companies that work with businesses, and distributors of semi-medical products for hospitals and nursing homes. From that point, the Company intends to enter into direct-to-consumer sales. In Europe, Asia, and Australia, the Company plans to focus on municipal and government centers and repurchases from distributors. Following success stories in a number of segments, they will plan to enter new segments, finally establishing themselves as the local standard. In India, the Company is currently setting a foundation and building relationships with distributors, after which it plans to sell directly to business customers.

<sup>2</sup> <https://en.globes.co.il/en/article-Aura-jumps-on-trial-purifying-indoor-air-of-Covid-virus-1001385970>

## 2. Products & Technology Overview

### Aura Air

Aura Air applies four unique steps of air purification and disinfection: pre-filtration, ray-filtration, sterionization, and UVC. Aura's Air technology is proven to disinfect 99.9% of viruses, bacteria, volatile organic compounds (VOCs) and allergens.

1. **Pre-filter** removes big particles of airborne dust, such as dust, pollen, animal hair.
2. **Ray-Filter™** consists of 3 unique antibacterial layers: (i) HEPA, a 99.98% effective particle filter of 330 microns, (ii) a carbon layer that absorbs Volatile Organic Compounds (VOC) and bad odors, and (iii) a smart copper fabric that filters viruses, bacteria, and more. The trademark is in the process of registration.
3. **Sterionizer™** component based on bipolar ionization technology that produces positive and negative ions. It completes the purification and disinfection processes. The charged oxygen molecules  $O_2^+$  and  $O_2^-$  with high chemical activity react with water molecules in the air, forming OH radicals and  $H_2O_2$  (Hydrogen Peroxide). With this chemical reaction, the oxidants break down the protein structure of pollutants and make them harmless.
4. **UVC LEDs** – Effective in neutralizing bacteria, viruses, and parasites by destroying proteins on the cell membrane.



Source: Aura Ai

### Aura Air Mini

This portable air purifier provides protection from harmful air pollutants using the Sterionizer™ ionization technology. It distributes positive and negative ions into the air and destroys the protein structures of pest cells. It is a portable device with a powerful and rechargeable battery, small enough to be carried in a personal bag. This product provides significant potential for a dire need in taxis.



## The Indoor/Outdoor Pollution Technology

The unique Aura Air technology provides air purification to both indoor and outdoor pollution. It removes harmful indoor particles origin from cooking (smoke, CO), cleaning products (VOC), pets (PM10, CO2, PM 2.5), furniture (VOC) and the environment (humidity). The purification dedicated to outdoor pollution concerns industrial emissions (VOC, PM 2.5, PM10, NO, NOX), global warming (CO, O3 – ozone, temperature, humidity), as well as plants and allergens (grass, pollen).

## Data Center

The system includes a platform for management, control, and monitoring for business customers with many products and allows the product to operate autonomously. The platform interfaces with building management systems (BMS), air conditioning systems, and other information systems. The system includes an application that enables smart and accurate management and customization for the end-user.

## Regulation

Aura Air's products meet the requirements of the U.S. Environmental Protection Agency (EPA), are in the process of receiving product approval from the U.S. Food and Drug Administration (FDA), and are in discussions at government levels regarding the issue of air quality regulations in enclosed spaces.

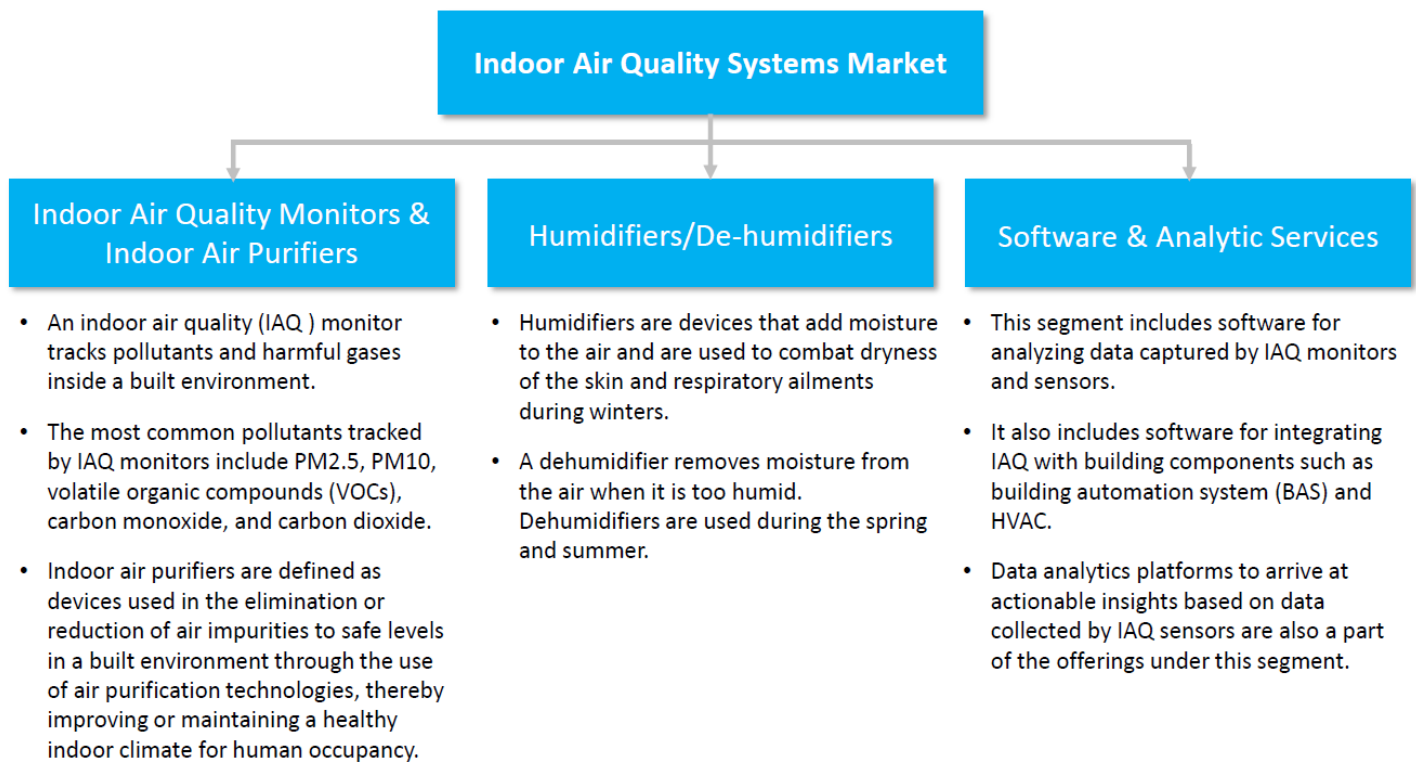


### 3. Market Overview

#### Indoor Air Quality (IAQ) Systems Market Segmentation

Indoor air quality (IAQ) systems include products that monitor and purify pollutants and other air conditions in a closed environment. Indoor air purification is defined as the elimination or reduction of air impurities to safe levels in a built environment through the use of a device (or multiple devices), thereby improving or maintaining a healthy indoor climate for human occupancy. The IAQ systems market is segmented as Indoor Air Quality Monitors & Indoor Air Purifiers; Humidifiers/De-humidifiers; and Software & Analytic Services.

**Figure 8: Indoor Air Quality Systems Market Segmentation**



Source: Frost & Sullivan

The vertical or end-user segmentation includes Commercial (Office, Retail, Hospitality – restaurants and hotels); Institutional (K-12, colleges, healthcare buildings); Residential; and Others (Government Buildings, Museums, Transport (Flights, Buses, Cars), Airports, Railway/Metro Stations). Regional segmentation of the IAQ systems market includes North America, Europe, Asia-Pacific (APAC), and Rest-of-World (RoW; comprises Middle East, Africa, and Latin America).



## Market Drivers & Restraints

Frost & Sullivan analyzes market prospects and potential based on force field analysis using key market drivers and restraints. The shortlisted drivers are then ranked based on the intensity of their impact (low–medium–high) over the intervals of the forecast period.

The leading market drivers include rising pollution levels and deteriorating air quality in major cities, in addition to increased consumer awareness about poor air quality. Closely following these is rising concern over the growing incidence of airborne diseases, especially in light of the severe impact of COVID-19.

A decline in prices of air purifiers due to the market entry of consumer-appliance brands is also expected to drive the demand further. Seasonal demand in several countries serves as the peak demand periods – examples are the stubble burning in Punjab and Haryana during winters in India, bushfires in Australia during peak summer, and the wildfires in California spanning two seasons.

The uppermost restraint is the high capital investment, and high maintenance costs are also a major deterrent for the purchase of air purifiers, especially in the residential segment. In addition, there are few enabling regulations encouraging adoption.

**Figure 10: Indoor Air Quality Systems Market: Growth Drivers, Global, 2020–2026**

Drive	1-2 Years	3-4 Years	5-7 Years
Increasing pollution levels and deteriorating air quality in major cities, as well as rising consumer awareness about poor air quality	High	High	High
Rising concerns regarding increasing airborne diseases, especially after the severe impact of COVID-19	High	Medium	Medium
Improving air quality in commercial buildings, especially offices, to ensure a safe workplace and the focus on well being of employees	High	Medium	Medium
Use of IAQ systems to monitor occupancy and achieve energy efficiency of HVAC systems	Medium	High	High
Smart cities, WELL Building Standard, and Green Building initiatives	Medium	Medium	High
Increase in disposable income and improving standard of living in several developing countries	Low	Low	Medium

Source: Frost & Sullivan

**Figure 11: Indoor Air Quality Systems Market: Growth Restraints, Global, 2020–2026**

Drive	1-2 Years	3-4 Years	5-7 Years
High capital investment and high maintenance costs are a major deterrent for the purchase of air purifiers, especially in the residential segment. While prices are going down, the average cost of air purifier is \$320, which is still considered expensive.	High	High	Medium
Lack of enabling regulations to drive adoption. There are several recommendations by government and environmental agencies, but there are no mandates as of now.	High	Medium	Low
Some air purifiers produce hazardous by-products such as ozone or nitrous oxide that pose a severe threat to the occupants.	Medium	Medium	Low

Source: Frost & Sullivan

## Market Growth Opportunity Analysis

### KEY TAKEAWAYS

- The global air purifier market was valued at \$10.38 billion in 2020 and is expected to reach \$21.15 billion by 2027 with a CAGR of 10.7%<sup>3</sup>.
- Partnerships with building management system (BMS) and heating, ventilation, and air condition (HVAC) solution providers; affordable pricing; ability to track and contain multiple pollutants; and a multi-channel growth strategy are the top success factors in this market.
- Indoor air purifiers and monitors are gaining widespread popularity due to their effect in reducing asthma and other breathing-related ailments. The impact of COVID-19 has added momentum to the already growing market. Though manufacturers did not expect a manifold growth in 2020, they agree that the growth will be significantly higher than before.
- Institutional building segments comprising schools and hospitals will witness massive growth during the forecast period, followed by transport and public buildings. Offices are likely to increase spending on improving air quality while the residential segment will maintain its current growth.

<sup>3</sup> <https://www.prnewswire.com/news-releases/global-air-purifier-market-size-is-projected-to-usd-21-15-bn-by-2027-says-brandessence-market-research-301432392.html>

## 5. Valuation Method & Approach

The valuation of a startup company in its early stages can be challenging due to limited cash flow (if any) and uncertainty regarding the future. As part of a Discounted Cash Flow (DCF), the accepted method used in financial valuations, there are several modifications to a startup company's valuation. In general, there are three primary methods within the DCF method:

1. **Real Options** - valuation method designated for programs/companies where the assessment is binary during the initial phases and based upon science-regulatory assessment only (binomial model with certain adjustments).
2. **Pipeline assessment** - valuation method used for programs/companies before the market stage. The Company's value is the total discounted cash flow, plus allocated costs and assessment of the future technological basis. The assessment of the future technological basis is established based on the Company's ability to "produce" new projects and their feed rate potential.
3. **DCF valuation** - similar to companies not operating in the life sciences field, this method applies to companies with products that have a positive cash flow from operations.

### Company Financial Overview

Aura Smart Air's revenue amounted to USD 3.78 million in 2020, solely from its Aura Air product. In the first half of 2021, the Company reported USD 6.38 million in revenue, with the Aura Air accounting for 96.1% of sales and Aura Air Mini accounting for 3.9%. The Company mainly sells to distributors, which comprise 91% of their sales. In 2020, North America accounted for 38% of the Company's sales, with the stated goal of reaching 70% by 2023.

Aura Smart Air's equity as of June 31, 2021, is USD 14.84 million according to its balance sheet and has USD 9.9 million in cash, according to the Company's management. The Company's R&D costs amounted to 24.6% of its revenues, which is in line with standard R&D expenditures for startup companies. However, Aura Smart Air projects that its R&D costs will decrease dramatically in terms of its percentage of revenues, converging to 8% by 2026. Sales and marketing (S&M) and general and administration (G&A) expenses account for 13.2% and 19.8%, respectively. The Company forecasts that these costs will decrease to 10% and 2.5%, respectively, by 2026. For FY 2020, the Company recorded an EBIT of USD -1.34 million but expects that to grow, based on the aforementioned decreased expenses, to grow to USD 20.58 million by 2026. The Company reported a net loss of USD 2.82 million in the first half of 2021.

### Revenue Model

Aura Smart Air offers three products: the Aura Air, the Aura Air Mini, and Aura Air replacement filters. The Company has ascertained that the filters need to be replaced twice a year. It has also determined that the Aura Air and Aura Air Mini have a life span of 3 years, after which they predict 50% of customers will purchase

replacement devices. Based on these assumptions, below are the projected sales and revenues (in \$ thousands) through FY 2026 for each product:

**Figure 1: Revenue projections from Aura Air, 2020 - 2026**

Price per unit: \$350	A2020	E2021	2022	2023	2024	2025	2026
Units exp. sold	10,800	23,556	102,804	271,800	285,390	299,660	314,642
Follow-up purchases					11,778	51,402	135,900
Total Aura Air units sold		23,556	102,804	271,800	297,168	351,062	450,542
<b>Revenue</b>	<b>\$ 3,780</b>	<b>\$ 8,245</b>	<b>\$ 35,981</b>	<b>\$ 95,130</b>	<b>\$ 104,009</b>	<b>\$ 122,872</b>	<b>\$ 157,690</b>

**Figure 2: Revenue projections from Aura Air Mini, 2020 - 2026**

Price per unit: \$100	A2020	E2021	2022	2023	2024	2025	2026
Units exp. sold		2,617	11,423	30,200	31,710	33,296	34,960
Follow-up purchases					1,309	5,712	15,100
Total Aura Air units sold		2,617	11,423	30,200	33,019	39,008	50,060
<b>Revenue</b>		<b>\$ 262</b>	<b>\$ 1,142</b>	<b>\$ 3,020</b>	<b>\$ 3,302</b>	<b>\$ 3,901</b>	<b>\$ 5,006</b>

**Figure 3: Revenue projections from Filters, 2020 - 2026**

Price per unit: \$55	A2020	E2021	2022	2023	2024	2025	2026
Aura Air units in circulation	10,800	23,556	102,804	271,800	297,168	351,062	450,542
Aura Air units in circulation - Y2			23,556	102,804	271,800	297,168	351,062
Aura Air units in circulation - Y3				23,556	102,804	271,800	297,168
Total units by customers		23,556	126,360	398,160	671,772	920,030	1,098,772
Average units by customers		23,556	74,958	262,260	534,966	795,901	1,009,401
<b>Revenues from filters</b>		<b>\$ 2,591</b>	<b>\$ 8,245</b>	<b>\$ 28,849</b>	<b>\$ 58,846</b>	<b>\$ 87,549</b>	<b>\$ 111,034</b>

**Figure 4: Total Aura Smart Air revenues projections, 2020 - 2026**

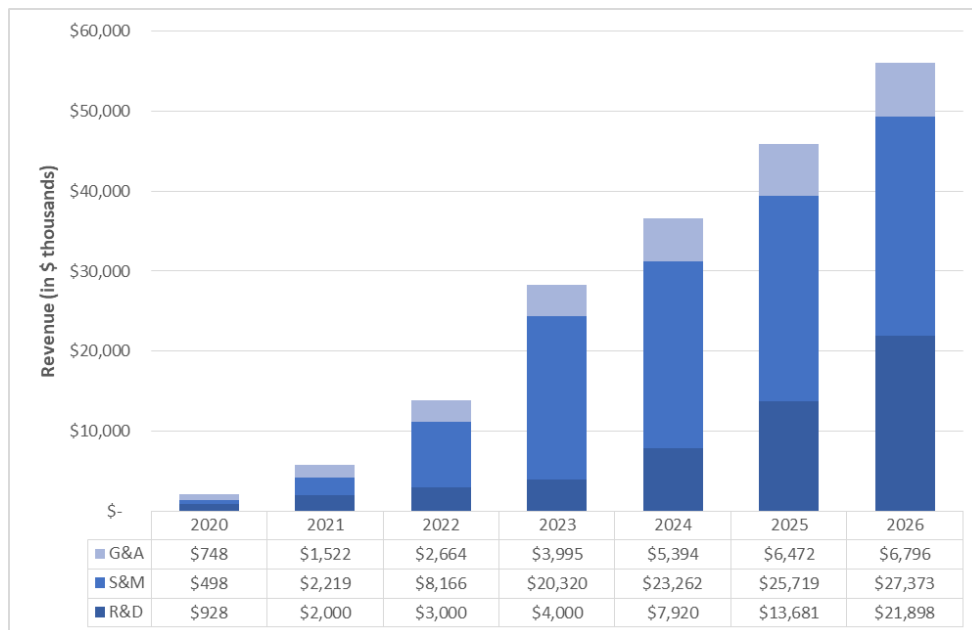
Year	A2020	E2021	2022	2023	2024	2025	2026
Aura Air	\$ 3,780	\$ 8,245	\$ 35,981	\$ 95,130	\$ 104,009	\$ 122,872	\$ 157,690
Aura Air Mini		\$ 262	\$ 1,142	\$ 3,020	\$ 3,302	\$ 3,901	\$ 5,006
Filters		\$ 2,591	\$ 8,245	\$ 28,849	\$ 58,846	\$ 87,549	\$ 111,034
<b>Total</b>	<b>\$ 3,780</b>	<b>\$ 11,097</b>	<b>\$ 45,369</b>	<b>\$ 126,999</b>	<b>\$ 166,157</b>	<b>\$ 214,322</b>	<b>\$ 273,730</b>

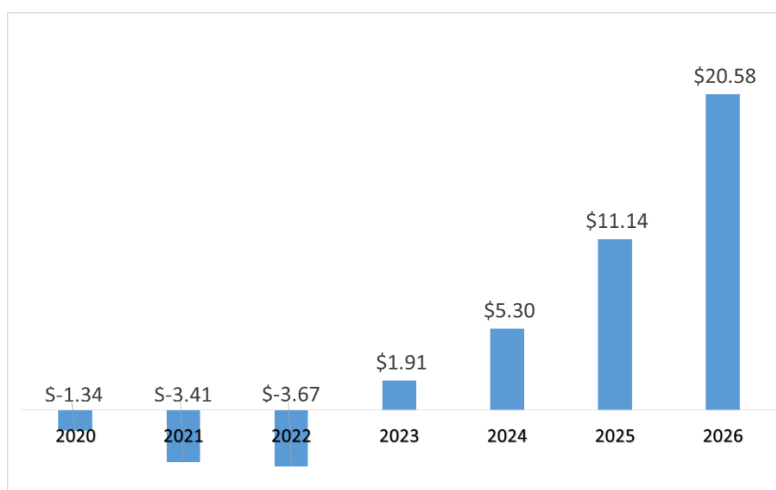
As shown above, we project that Aura Smart Air's revenues will increase dramatically over the coming years, based on the Company's early success with Aura Air, along with the increasing demand for air purification due to COVID-19. On the chart below, we display the estimated increase in revenues during the period:

**Figure 5: Aura Smart Air Revenue forecast, 2020 – 2026, by product**

## Operating expenses

We evaluated Aura Smart Air's equity value based on the Company's three product offerings, taking into account the research & development (R&D), sales & marketing (S&M), and general & administration (G&A) expense projections. In the graph below, we depict the Company's operating expenses forecast through 2026:

**Figure 6: Aura Smart Air operating expenses forecast, 2020 – 2026****Figure 7: Aura Smart Air operating income forecast, 2020 – 2026 (in \$ Millions)**



Additional points:

- Tax – we use statutory tax rates.
- WC – we assume 30 net days of working capital needs.
- CAPM – we use 16.71% based on our CAPM model (see appendix A)
- Non-operational assets and liabilities – the Company has USD 9.9 million and no loans as of 30/09/2021.

Below is our equity value breakdown:

Parameters	(000, \$)
Enterprise Value	67,721.031
Cash	9,900.000
Equity value (000, \$)	77,621.03
Equity value (000, NIS)	250,715.93

**Based on the above parameters, we evaluate the Company's equity value at NIS 250.7 million.**

## Sensitivity Analysis

The table below presents Aura Smart Air's share price target concerning the capitalization rate. We set a range of 0.5% change from our CAPM model (see Appendix B). The Company has 24.44 million shares as of October 11, 2021.

Cap rate	Price target
16.21%	9.8
16.71%	10.26
17.21%	10.75

**We estimate the price target to be in the range of NIS 9.8 to NIS 10.75 with a mean of NIS 10.26.**

## Appendix #1: Capital Asset Pricing Model (CAPM)

Cost of equity capital ( $k_e$ ) represents the return required by investors. The capitalization rate is calculated using the CAPM (Capital Asset Pricing Model). It is based on a long-term 30-year T-bond with a market risk premium and is based on Professor Aswath Damodaran's (NYU) commonly used sample ([www.damodaran.com](http://www.damodaran.com)). As of January 8, 2021, the Israeli market risk is estimated at 5.4%.

The three-year market regression Beta is 0.81, according to a sample of 86 firms (at various stages), representing the environmental and waste services sector ([www.damodaran.com](http://www.damodaran.com)). We also add specific risk premiums to the Company as a large part of its sales are conducted outside of Israel with different regulatory risks.

The Capital Asset Pricing Model (CAPM) is estimated as follows:

$$ER_i = R_f + \beta_i(R_m - R_f)$$

The Company's financial structure, based on the CAPM, is as follows:

	s	data	Source
Long-term (20 years)	R(f)	2.12%	Israel Bonds - 0142
Market risk premium	R(m)- R(f)	5.40%	based on Damodaran (8/1/2021) - Israel
Beta unleveraged	$\beta$	0.81	Beta sample - Environmental & Waste Services (Damodaran, 2021), 86 firms
Cost of Capital	R(k)	6.5%	
Size Premium - micro-cap		8.24%	10z decimal - Duff & Phelps, 2021
Additional risk		2.00%	
CAPM	CAPM	<b>16.71%</b>	



## Appendix #2: About Frost & Sullivan

Frost & Sullivan\* is a leading global consulting, and market & technology research firm that employs staff of 1,800, which includes analysts, experts, and growth strategy consultants at approximately 50 branches across 6 continents, including in Herzliya Pituach, Israel. Frost & Sullivan's equity research utilizes the experience and know-how accumulated over the course of 55 years in medical technologies, life sciences, technology, energy, and other industrial fields, including the publication of tens of thousands of market and technology research reports, economic analyses and valuations. For additional information on Frost & Sullivan's capabilities, visit: [www.frost.com](http://www.frost.com). For access to our reports and further information on our Independent Equity Research program visit [www.frost.com/equityresearch](http://www.frost.com/equityresearch).

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