

Foresight Autonomous Holdings

Out of the station and on the self-financing track

2016 results review

Software & comp services

Foresight Autonomous Holdings (FRST) shares have performed very strongly over the last month. Key influences have been the high valuation implied by the Intel acquisition of Mobileye, the successful completion of a round of equity fund-raising ahead of the group's planned Nasdaq listing and positive feedback from Deutsche Bahn's testing of Rail Vision's safety systems. Positively, the Q117 equity issues of NIS42.7m (\$11.7m) put the company on track for self-financing and we have also increased our earnings forecasts to reflect what we see as Rail Vision's improved near-term order prospects, boosting our DCF valuation from NIS3.11 to NIS3.30 per share.

Year end	Revenue (NISm)	EBITDA* (NISm)	PBT* (NISm)	EPS* (NIS)	EV/revenue (x)	DPS (NIS)
12/16	0.0	(9.1)	(9.8)	(0.14)	N/A	0.0
12/17e	0.0	(13.0)	(16.0)	(0.17)	N/A	0.0
12/18e	0.6	(15.4)	(16.6)	(0.18)	459.1	0.0
12/19e	5.8	(14.2)	(11.5)	(0.12)	49.8	0.0

Note: *EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Recent share issues put FRST on self-financing track

Following recent share issues, raising a gross NIS42.7m (\$11.7m) in Q117, our forecasts indicate that FRST will need only NIS4.5m (\$1.1m) in further funding before becoming free cash flow generative in 2020. Cash from warrants conversions are likely to fill this gap given the potential NIS113.9m (\$31.0m) from the conversion of currently in-the-money warrants.

Rail Track's successes bring forward order prospects

Following Deutsche Bahn's recent positive assessment of Rail Track's rail safety systems, and Rail Vision's inclusion in Deutsche Bahn's start-up accelerator scheme, we have increased our valuation of FRST's 32% stake in Rail Vision from NIS41m to NIS79m. This reflects our new assumption that the group will fulfil substantial orders from Deutsche Bahn or another major rail operator as early as 2018.

Valuation: Mobileye the hook, newsflow the bait...

A key valuation event of recent months has been Intel's \$15.3bn offer for Mobileye, which equates to a 29.3x EV/revenue multiple based on consensus forecast revenues of \$500m in 2017. When translated to Foresight, the valuation implies strong upside to NIS7.8 per share on the basis of 2020 revenues, but only NIS2.6 on 2019 revenues, which could lead it to more greatly influence the share price in a bull market than support it in a downturn. That said, we see good prospects for newsflow from both Foresight's auto business and Rail Vision to support the share price this year. We also see good prospects for the planned Nasdaq listing to increase international investor interest and trading volumes, helped by the concurrent publication of accounts in English. We have increased our DCF valuation for Foresight by 6% to NIS3.30 per share, principally due to the above-mentioned increases in our Rail Vision valuation.

24 April 2017

Price* **NIS3.17**

Market cap **NIS259m**

*Priced as at 23 April 2017

NIS3.6713/US\$

Net cash (NISm) at 31 December 2016 14.435

Shares in issue 81.7m*

*94.2m after registration of all share issues undertaken in March

Free float 50.6%

Code FRST

Primary exchange TASE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 14.1 61.3 70.2

Rel (local) 15.0 60.4 75.6

52-week high/low NIS3.8 NIS1.7

Business description

Foresight Autonomous (FRST) is a development-stage technology company in Israel, developing ADAS systems based on technology developed by its parent company and the Israeli military. FRST also has a 32.0% stake in Rail Vision, which is looking to sell its first rail ADAS system in 2017.

Next event

Q117 results May 2017

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Results summary

Foresight Autonomous Holdings reported a net loss of NIS51.3m in 2016, principally due to the NIS41.6m in exceptional expenses relating to listing on the TASE in Q116 and costs arising from preparations to list on Nasdaq, which is now planned for later this year. These included the purchase of the assets of a listed shell company for NIS32.7m, and NIS7.6m in share-based payments to consultants related to this listing, both expensed in Q116.

We calculate the normalised full year net loss at NIS9.8m (\$2.5m). The bulk of this loss arose from R&D and G&A costs relating the company's commercialisation and marketing activities. A key factor within both these expense lines was ongoing product development and increased staffing levels in preparation for its conversion to a sales and marketing driven operation.

Operating cash outflows during the year were NIS9.4m after stripping out the treatment of costs related to the TASE listing. Investment totalled NIS5.4m of which direct investment in plant and equipment was NIS0.3m – in keeping with the expensing of R&D and FRST's current commercialisation focus. The remainder arose from the NIS5.1m investment in railway tech company, Rail Vision.

FRST's operations were supported by net inflows of NIS24.1m from equity issues, which left the group with a year-end net cash balance of NIS14.4m. Further share issues raising NIS42.7m (before issue costs) in Q117 further strengthened the balance sheet post results. It should be noted that one of these issues of 12.4m share shares has not yet been registered as of the date of this report, such that registered share capital is still listed as 81.7m shares. Nevertheless, as the company has announced the completion of the issue in its 2016 results release we have included the shares from this issue and the cash raised in our calculations of future shares in issue and cash balances.

Fourth quarter results

Fourth quarter results showed an increase in net loss from NIS3.8m in Q316 to NIS4.2m. The key contributing factors were:

- A sharp rise in G&A costs from NIS2.10m in Q3 to NIS2.55m (H1 quarterly average: NIS1.86m). This was primarily caused by a one-off NIS653k VAT provision relating to the 2012-14 years and approximately NIS150k in expenses relating to the planned Nasdaq listing, according to information supplied by management.
- An increase in underlying G&A staff costs (up NIS126k to NIS555k) due to new G&A hires, planned in advance to ready the company for product commercialisation.
- A 20% quarter-on-quarter increase in marketing and sales costs, to NIS247k from NIS205k in Q3 (H1 quarterly average: NIS203k) in keeping with the ramp up in FRST's commercialisation programme and international marketing efforts.
- A 12% quarter-on-quarter increase in R&D costs, to NIS1,183m, which the group expensed, rather than capitalising it.
- The generation of net financial income of NIS263k after a negative NIS280k in Q3, reflecting gains on the sale of financial assets held for sale.

Exhibit 1: Quarterly results and forecast summary

NIS000s	Q116	Q216	Q316	Q416	2016	2017e	2018e	2019e	2020e
Profit and loss statement									
Revenue	0	0	0	0	0	0	580	5,837	43,056
R&D costs	(552)	(679)	(1,059)	(1,183)	(3,473)	(6,224)	(7,521)	(8,450)	(9,494)
Marketing and Sales	(215)	(192)	(205)	(247)	(859)	(1,656)	(2,608)	(3,434)	(5,048)
Employee costs (G&A)	(447)	(438)	(429)	(555)	(1,869)	(3,153)	(3,938)	(6,120)	(10,819)
ESOP share-based payments (employees)	0	(1,163)	(637)	(457)	(2,257)	(899)	(351)	(355)	(359)
Other G&A	(618)	(1,055)	(1,039)	(1,538)	(4,250)	(1,915)	(1,942)	(1,981)	(5,388)
G&A	(1,065)	(2,656)	(2,105)	(2,550)	(8,376)	(5,967)	(6,232)	(8,456)	(16,566)
Other income	65	2	0	0	67	15	15	15	16
Share-based payments to consultants/listing costs	(37,566)	(197)	(145)	(108)	(38,016)	(21)	(21)	(21)	(22)
Total opex	(39,333)	(3,722)	(3,514)	(4,088)	(50,657)	(13,853)	(16,367)	(20,346)	(31,114)
Change (%)	N/A	N/A	N/A	N/A	N/A	(73)	18	24	53
EBITDA	(39,333)	(3,722)	(3,514)	(4,088)	(50,657)	(13,853)	(15,786)	(14,509)	11,942
EBITDA margin (%)	N/A	N/A	N/A	N/A	N/A	N/A	(2,719.6)	(248.6)	27.7
EBITDA normalised	(1,767)	(1,862)	(2,732)	(2,720)	(9,081)	(12,954)	(15,435)	(14,154)	12,301
EBITDA margin normalised (%)	0.0	0.0	0.0	0.0	N/A	N/A	(2,659.1)	(242.5)	28.6
Depreciation and amortisation	(2)	(4)	(12)	(21)	(39)	(44)	(86)	(155)	(223)
Operating profit normalised	(1,769)	(1,866)	(2,744)	(2,741)	(9,120)	(12,998)	(15,521)	(14,309)	12,077
Finance income (expenses)	134	(357)	(280)	263	(240)	231	160	171	143
Equity accounted profit	0	0	0	(400)	(400)	(3,245)	(1,280)	2,617	16,105
Profit before tax normalised	(1,635)	(2,223)	(3,024)	(2,878)	(9,760)	(16,012)	(16,641)	(11,520)	28,325
Exceptionals	37,566	1,860	782	1,368	41,576	899	351	355	359
Profit before tax reported	(39,201)	(4,083)	(3,806)	(4,246)	(51,336)	(16,911)	(16,992)	(11,875)	27,967
Tax	0	0	0	0	0	0	0	0	0
Net profit reported	(39,201)	(4,083)	(3,806)	(4,246)	(51,336)	(16,911)	(16,992)	(11,875)	27,967
Key cash flow/balance sheet data									
Total operating cash flows	(2,370)	(2,356)	(2,043)	(2,588)	(9,357)	(12,969)	(15,445)	(14,540)	6,254
Purchase of property, plant and equipment	0	(34)	(212)	(33)	(279)	(1,464)	(1,470)	(1,522)	(1,895)
Acquisition of equity investments*	0	0	(2,265)	(2,883)	(5,148)	0	0	0	0
Total Investing cash flow	(18)	(34)	(2,477)	(2,657)	(5,186)	(1,234)	(1,310)	(1,351)	(1,752)
Share issue/(repurchase)	18,177	1,101	3,179	1,629	24,086	40,575	0	0	0
Net change in cash	20,681	(1,289)	(1,336)	(3,621)	14,435	26,372	(16,755)	(20,392)	9,004
Closing net debt/(cash)	(20,681)	(19,392)	(18,056)	(14,435)	(14,435)	(40,807)	(24,052)	(8,162)	(12,664)
Monthly cash flow generation									
Monthly operating cash flow generation	(790)	(785)	(681)	(863)	(780)	(1,081)	(1,287)	(1,212)	521
Monthly cash increase (burn) – operating + investing	(796)	(797)	(1,507)	(1,748)	(1,212)	(1,184)	(1,396)	(1,324)	375
Per share calculations									
EPS reported basic (NIS)	(0.58)	(0.06)	(0.05)	(0.06)	(0.76)	(0.18)	(0.18)	(0.13)	0.30
EPS normalised basic (NIS)	(0.02)	(0.03)	(0.04)	(0.04)	(0.14)	(0.17)	(0.18)	(0.12)	0.30
DPS (NIS)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares at period end (m)	68.0	70.0	71.9	73.1	73.1	94.2	94.2	94.2	94.2
Average number of shares over period (m)	68.0	69.0	70.9	72.5	67.3	91.6	94.2	94.2	94.2
Weighted average diluted number of shares (m)	69.8	70.8	72.7	74.3	71.9	125.6	132.9	132.9	132.9

Source: Foresight Autonomous Holdings accounts, Edison Investment Research

Change in earnings forecasts

Exhibit 2: Change in forecasts

NISm	2016e	2016	Change	2017e	2017e	Change	2018e	2018e	Change	2019e	2019e	Change
	Estimate	Actual	%	Old	New	%	Old	New	%	Old	New	%
Revenues	0.0	0.0	N/A	0.0	0.0	N/A	0.6	0.6	(4.0)	6.1	5.8	(4.0)
R&D costs	(3.7)	(3.5)	(5.9)	(6.2)	(6.2)	0.7	(7.8)	(7.5)	(3.5)	(8.8)	(8.5)	(3.5)
Marketing and Sales	(0.8)	(0.9)	4.8	(1.8)	(1.7)	(6.0)	(2.2)	(2.6)	16.5	(2.9)	(3.4)	17.0
General and Admin	(7.3)	(8.4)	15.1	(6.1)	(6.0)	(1.4)	(6.4)	(6.2)	(2.9)	(8.4)	(8.5)	0.4
Share-based payments (SBP)/other*	(38.0)	(37.9)	(0.1)	0.0	(0.0)	(139.6)	0.0	(0.0)	(136.8)	0.0	(0.0)	(137.7)
EBITDA	(49.8)	(50.7)	1.6	(14.0)	(13.9)	(0.9)	(15.8)	(15.8)	(0.3)	(14.0)	(14.5)	3.5
Exceptionals (incl. SBP)	41.3	41.6	0.6	0.9	0.9	(0.0)	0.4	0.4	0.0	0.4	0.4	(0.1)
EBITDA normalised	(8.5)	(9.1)	6.6	(13.1)	(13.0)	(1.0)	(15.5)	(15.4)	(0.3)	(13.7)	(14.2)	3.6
Finance income (expense)	(0.8)	(0.2)	(70.4)	(0.1)	0.2	N/A	(0.5)	0.2	N/A	(1.3)	0.2	N/A
Operating profit normalised	(8.5)	(9.1)	6.7	(13.1)	(13.0)	(1.0)	(15.6)	(15.5)	(0.3)	(13.8)	(14.3)	3.5
Operating profit reported	(49.9)	(50.7)	1.6	(14.0)	(13.9)	(1.0)	(15.9)	(15.9)	(0.3)	(14.2)	(14.7)	3.4
Equity accounted profit	(0.3)	(0.4)	N/A	(3.4)	(3.2)	N/A	(1.7)	(1.3)	N/A	0.0	2.6	N/A
PBT normalised	(9.6)	(9.8)	1.3	(16.6)	(16.0)	(3.4)	(17.8)	(16.6)	(6.6)	(15.2)	(11.5)	(24.1)
PBT reported	(51.0)	(51.3)	0.7	(17.5)	(16.9)	(3.2)	(18.2)	(17.0)	(6.4)	(15.5)	(11.9)	(23.5)
Net income normalised	(9.6)	(9.8)	1.3	(16.6)	(16.0)	(3.4)	(17.8)	(16.6)	(6.6)	(15.2)	(11.5)	(24.1)
Net income reported	(51.0)	(51.3)	0.7	(17.5)	(16.9)	(3.2)	(18.2)	(17.0)	(6.4)	(15.5)	(11.9)	(23.5)
EPS normalised basic (NIS)	(0.13)	(0.14)	10.0	(0.23)	(0.17)	(22.9)	(0.24)	(0.18)	(27.5)	(0.21)	(0.12)	(41.2)
EPS normalised diluted (NIS)	(0.13)	(0.14)	10.0	(0.23)	(0.17)	(22.9)	(0.24)	(0.18)	(27.5)	(0.21)	(0.12)	(41.2)
EPS reported basic (NIS)	(0.70)	(0.76)	9.3	(0.24)	(0.18)	(22.8)	(0.25)	(0.18)	(27.4)	(0.21)	(0.13)	(40.8)
Dividend per share (NIS)	0.00	0.00	N/A	0.00	0.00	N/A	0.00	0.00	N/A	0.00	0.00	N/A
Net debt/(cash)	(13.3)	(14.4)	8.7	0.7	(40.8)	N/A	18.2	(24.1)	N/A	35.0	(8.2)	N/A

Source: Edison Investment Research. Note: *Share-based payments to consultants. Employee Share Option (ESOP) scheme payments shown in General and Admin.

We have not materially altered our operating profit forecasts in the wake of the 2016 results. Nevertheless, our normalised net loss expectations have been reduced by 6.6% to NIS16.6m in 2018 and 24.1% to NIS11.5m in 2019 (see Exhibit 2). EPS losses have been even more sharply reduced. This reflects:

- Lower net loss expectations for equity-accounted Rail Vision. This follows very positive assessments of the technology in tests of the technology by Deutsche Bahn, which were announced earlier in the year. This has led us to bring forward our expectation of volume order inflows and the ramp-up in revenues (see Exhibit 4).
- The expectation of net cash instead of net debt balances in 2017, 2018 and 2019 and much lower finance costs as a result of the unexpectedly large NIS42.7m equity issue in Q117.
- Increased basic and diluted share numbers arising from the issues of shares and warrants during Q117 (see discussion below).

Rail Vision equity issue

Rail Vision has announced a planned current \$3m capital raising, with the first \$2m committed, valuing the company at \$20m. We expect that Foresight will increase its investment in Rail Vision during this equity funding round but have not adjusted our model for either stake increase or capex outlays given the lack of information on how much it is to acquire,

Based on the implied valuation from the initial share issues we estimate that there is the potential for Foresight to increase its stake in the company from its current 32% (48% on a fully diluted basis) to up to 45%, assuming that it was able to subscribe to the entire equity issue.

Operations update

Automotive

Foresight launched the alpha version of its flagship ADAS product in Tel Aviv at the end of January 2017 after a long series of tests on the product. Management have reported that the system as launched is able to detect and alert drivers to objects, both static and in motion, as small as 40cm x 40cm located in front of the vehicle.

As before, the system allows drivers to activate the system and customise alerts as needed. With a key selling point of the group's stereo camera system being its potential for low false positives, it is encouraging that the group was able to report a continued high standard in this metric. For further information about this system and our assessment of its prospects, see our [initiation report](#) of 27 September 2016.

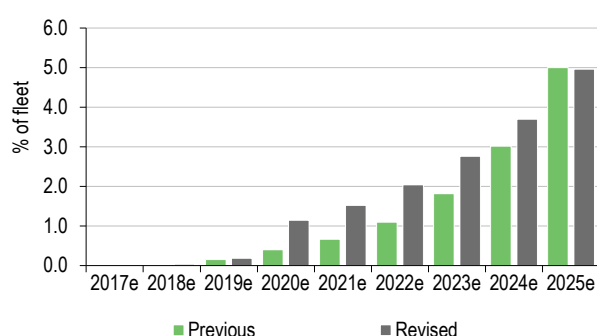
Rail Vision

In February Foresight announced that Deutsche Bahn (DB) had concluded field tests of 32%-owned Rail Vision's (RV) collision-avoidance system with what are understood to be highly satisfying results.

Having already been chosen in 2016 from among 130 applicants to join six technology companies to take part in DB's start-up accelerator program, RV's representatives were asked to extend their stay in Germany for further collaboration, following the tests.

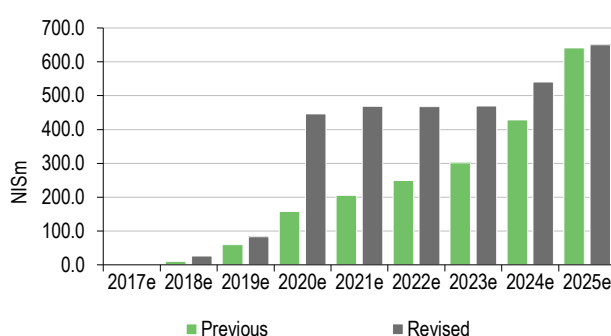
We believe that a significant upgrade of the fleet of a major European operator such as Deutsche Bahn or Trenitalia (which is also testing RV's systems) would have a material impact on RV's revenue generating potential over the next two or three years, with positive implications for its valuation. In keeping with our increased confidence in the potential realisation of major order inflows over the next three to five years following DB's positive assessment of RV's technology, we have increased our forecasts of the pace of installation of ADAS equipment into the global rail fleet over the next three to five years as shown in Exhibit 3. This, together with our expectation that RV will capture a significant share of this order flow, has led us to increase our RV revenue expectations as shown in Exhibit 4 (also see Exhibit 5 for market share assumptions and other key assumptions).

Exhibit 3: Revised ADAS installations, % of global rail fleet



Source: Edison Investment Research

Exhibit 4: Rail Vision revised revenue forecasts



Source: Edison Investment Research

Rail Vision valuation increased

The increase in our unit sales and revenue expectations means that we now see the potential for Rail Vision to become free cash flow generative in 2018. On a DCF basis, we accordingly value Rail Vision at NIS246.3m (\$67.3m), up from NIS129.2m (\$23.3m) as of December 2016. With the

recent increase in share and warrant numbers, this gives rise to a value of Foresight's 32% stake in the company of NIS0.59 per diluted Foresight share, up from NIS0.56 per share previously. Foresight's warrant holdings give it the right to increase its stake in RV to c 48% at a cost of \$11.3m.

Exhibit 5: Rail Vision financial summary and DCF valuation

NISm	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Global powered rail unit fleet (units)*	807,594	810,017	812,447	814,884	817,329	819,781	822,240	824,707	827,181
Change (%)	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Installation of ADAS systems (% of fleet)	0.0	0.0	0.2	1.1	1.5	2.0	2.8	3.7	5.0
Total ADAS market (units)	5	286	1,523	9,340	12,444	16,740	22,686	30,474	41,046
Rail Vision market share (%)	100	58	40	41	33	25	19	16	15
Rail Vision sales (units)	5	167	611	3,861	4,108	4,143	4,209	5,018	6,317
Sales price (\$k)	50	43	36	31	29	28	26	25	24
Big data/maintenance charge (\$ pa/unit fitted)	1,750	1,563	1,403	1,268	1,229	1,193	1,158	1,125	1,094
Revenues	0.9	26.5	83.3	446.6	468.7	467.5	469.2	540.2	650.6
EBITDA	(10.2)	(7.8)	12.5	67.0	70.3	70.1	70.4	81.0	97.6
EBITDA margin (%)	(1,111.5)	(29.6)	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Total capex	(0.8)	(2.1)	(1.7)	(4.5)	(4.7)	(4.7)	(4.7)	(5.4)	(6.5)
Free cash flow	(10.7)	8.3	32.4	51.6	34.1	34.2	39.4	47.5	62.0
Sum of free cash flow	242.1	FRST stake (%)			32.0	WACC			15%
Net debt/(cash) end-2016	(4.2)	Value of FRST stake			78.8	Terminal growth rate			3%
Company valuation	246.3	Value of FRST stake (NIS/diluted share)			0.59	TV/total EV			54%

Source: Foresight Autonomous Holdings, International Union of Railways (UIC), Edison Investment Research. Note: *We believe that UIC data implying the number of PRUs in the EU, Europe and worldwide at 91k, 124k and 201k are significantly understated, reflecting large-scale privatisation in the industry and poor reporting standards. To overcome this we have applied German multiples of PRU per train km, rail passenger km and rail freight tonne km to the corresponding data for the regions less 30% and 50% discounts, respectively, to the European and worldwide figures to reflect longer trains and heavier cargos, resulting in revised PRU estimates of 121k, 340k and 808k in the EU, Europe and worldwide, respectively.

Capital raising

In March Foresight completed NIS43.7m (\$11.9m) worth of equity issues in accordance with allocation agreements signed in February and March. This brought the number of allocated shares and shares in issue up by 29% from 73.1m to 94.2m. Delays in registration mean that registered capital is lagging this number at 81.7m shares. However, we understand that the registrations are expected to be completed this month and we have therefore incorporated all the allocated shares into our model and EPS calculations.

Taking Q117 share issues as a whole, the average issue price was NIS2.02, with the first and largest issue of 12.4m shares taking place at NIS1.90 per share. This was followed by issues at NIS2.1 (6.6m shares) and NIS2.4 (2.1m shares). Participants included a number of companies from the auto business in Israel, including the Dayan family, who are co-owners of Trade Mobile, and Hamizrach Holdings Ltd., a controlling shareholder in Universal Motors Israel (UMI) and Avis Israel. The Alpha Value Investment Fund was a key investor from the financial sector.

During Q117 Foresight also issued 20.7m non-marketable warrants with exercise prices between NIS1.95 and NIS3.48 (at the current rate of NIS3.67/US\$) to bring the total number of outstanding warrants, net of conversions, to 53.7m. The largest, Series F issue of 18.9m warrants, with an exercise price of \$0.8 (NIS2.92), was offered as an inducement to shareholders subscribing to the above-mentioned share issues.

Of total outstanding warrants, we calculate that 40.3m are currently in-the-money (have an exercise price below the current share price) and have an average exercise price of NIS2.83 (see Exhibit 6). If these warrants all vest (as appropriate) and are exercised, we calculate total funds raised would reach NIS113.9m (\$31.0m), which we see as a potential source of funds to take the company to free cash flow breakeven, which we forecast to take place in 2020. It should be noted for the purposes of EPS calculations that we apply 38.7m warrants which represents our calculation of already vested in-the-money warrants.

Exhibit 6: Warrants summary

	Total issued	Currently in the money*	Exercise price (NIS)**	Theoretical funds from conversion (NISm)***
Series A total (NIS3 exercise)	12,443,449	12,443,449	3.00	37.3
Series B total (NIS4 exercise)	13,442,835	N/A	4.00	N/A
Series C total (NIS3 exercise)	1,000,000	1,000,000	3.00	3.0
Series D (NIS0.3 exercise): ESOP– vesting from 01/01/2016 in 10 equal portions quarterly over 36 months	1,794,205	1,794,205	0.30	0.5
Series E (NIS 3.0 exercise): Issued September 2016 exercisable for 36 months	3,178,557	3,178,557	3.00	9.5
Issues since 1 January 2017				
Series D (NIS 1.95 exercise): ESOP: Issued 26/01/17, vesting in 12 months from 01/10/16	900,000	900,000	1.95	1.8
Series C (NIS 1.95 exercise) Private placement to consultants: Issued 1/02/17, vesting in 12 months from 1/10/16.	380,000	380,000	1.95	0.7
Series F (\$0.8 exercise): issued March 2017 exercisable for 24 months	19,520,514	19,520,514	2.94	57.3
Series G (\$0.95 exercise): issued March 2017 exercisable for 18 months	1,051,665	1,051,665	3.49	3.7
Total/average (for exercise price)	53,711,225	40,268,390	2.83	113.9

Source: Edison Investment Research, Foresight Autonomous Holdings. Note: *Based on share price of NIS3.55. ** Applying exchange rate of NIS3.67/US\$ to dollar-based exercise prices. ***Assuming vesting and conversion of all warrants. Excludes out-of-the money warrants. Including only vested warrants we calculate a lower cash-raise potential of NIS112.5.4m, which we use in the calculation of diluted per share figures.

Nasdaq listing

On 28 February 2017, following shareholder approval in January, Foresight's board approved plans to list ADRs on the Nasdaq stock exchange. Listing under Nasdaq's Equity Standard requires \$5m in shareholders' equity as well as a market value of publicly held shares of \$50m. At end-2016 the company was able to report shareholders' equity of \$4.37m. Nevertheless, recent share issues should enable the company to comfortably exceed \$5m, and the market capitalisation measure should also be readily reached helped by recent share price gains. We understand that management no longer plans to undertake an equity issue alongside the listing, given the success of its equity raising efforts in Q117.

We expect the Nasdaq listing and the accompanying commencement of publication of English language accounts and statements to raise the profile of the group, with a potentially positive impact on the share price and trading volumes.

Valuation

Valuation lessons from Mobileye's acquisition multiples

A key valuation event of recent months has been Intel's \$15.3bn offer for Mobileye, which equates to a very high 29.3x EV/revenue take-over multiple based on consensus forecast revenues of \$500m in 2017.

We have translated this to Foresight by using it to calculate the value of its automotive business, to which we have added our DCF valuation of the Rail Vision stake to give rise to the group valuation.

These numbers imply strong potential upside to NIS7.8 per share when applying the 2017 Mobileye takeover multiple, discounted for three years using a WACC of 15%, to Foresight's 2020 revenues. Nevertheless, applying the same methodology to early stage 2018 and 2019 revenues gives rise to substantially lower valuations of NIS1.8 and NIS2.6 per share, respectively.

In our view, this should not be seen as a significant negative for the Foresight valuation. Mobileye is already in a free cash flow generative state and its future revenue growth rates are likely to be significantly lower than Foresight's, so its revenue multiple should arguably be substantially below Foresight's. Nevertheless, given the wide range of potential valuations arising from the acquisition

multiple, and Mobileye's unique position in the market – as well as Intel's strong grounds for potentially overpaying – we believe that the market is likely to pay most attention to the top valuation in market rallies, and to a lesser extent regard it as a potential support for the price in less favourable conditions.

Exhibit 7: Valuation based on Mobileye revenue multiple

Valuation based on revenue in year	2017e	2018e	2019e	2020e	2017e	2018e	2019e	2020e
	NISm	NISm	NISm	NISm	\$m	\$m	\$m	\$m
Undiluted share capital valuation								
EV/revenue discounted by WACC at 15% (x)	29.3	25.5	22.2	19.3	29.3	25.5	22.2	19.3
Revenue	0.00	0.58	5.84	43.06	0.00	0.16	1.59	11.76
EV	0.0	14.8	129.5	830.6	0.0	4.0	35.4	226.9
Adjusted net cash (debt)*	55.0	40.8	24.1	8.2	14.6	11.1	6.6	2.2
Valuation Foresight Auto	55.0	55.6	153.5	838.8	14.6	15.2	41.9	229.2
Valuation Rail Vision stake (DCF based)	78.8	78.8	78.8	78.8	21.5	21.5	21.5	21.5
Total group valuation	133.8	134.4	232.4	917.6	36.2	36.7	63.5	250.7
Shares in issue (m)	94.2	94.2	94.2	94.2	94.2	94.2	94.2	94.2
Value per share (NIS/\$)	1.42	1.43	2.47	9.74	0.38	0.39	0.67	2.66
Diluted share capital valuation								
EV (as above)	0.0	14.8	129.5	830.6	0.0	4.0	35.4	226.9
Adjusted net cash (debt)*,**	167.6	153.4	136.6	120.7	45.4	41.9	37.3	33.0
Valuation Foresight Auto	167.6	166.0	263.9	949.2	44.8	45.4	72.1	259.3
Valuation Rail Vision stake (DCF based)	78.8	78.8	78.8	78.8	21.5	21.5	21.5	21.5
Total group valuation	246.4	247.0	344.9	1030.2	66.9	67.5	94.2	281.4
Diluted shares in issue (m)	132.9	132.9	132.9	132.9	132.9	132.9	132.9	132.9
Value per fully diluted share (NIS/\$)	1.85	1.86	2.60	7.75	0.50	0.51	0.71	2.12
Net cash (debt) start of year	14.4	40.8	24.1	8.2	3.8	11.1	6.6	2.2
Cash from share issues	40.6				10.9			
Cash from warrant conversion (notional)	112.5	112.5	112.5	112.5	30.7	30.7	30.7	30.7
Adjusted net cash/(debt) start of year	167.6	153.4	136.6	120.7	45.4	41.9	37.3	33.0

Source: Edison Investment Research

DCF valuation increased by 6% to NIS3.30

Our DCF valuation for Foresight has risen from NIS3.11 in December 2016 to NIS3.30 per share. Our underlying free cash flow forecasts for individual years have not changed markedly, but the sum of discounted cash flows has risen from NIS163m to NIS191m with the falling out of the 2016 cash flows, which included major outflows relating to Foresight's NIS5.1m investment in Rail Vision.

We have increased the value of Foresight's 32% Rail Vision stake from NIS42m to NIS78.8m, reflecting our assessment of greater potential of larger early year contracts from operators such as Deutsche Bahn, following Deutsche Bahn's recent positive assessment of Rail Vision's safety systems.

On a per share basis, the valuation has been negatively affected by recent equity and warrant issues. These have resulted in an increase in our estimate of diluted share numbers from 74.9m to 132.9m. This is partly offset by the increase in the theoretical cash contribution from potential warrant conversions of vested shares (from NIS0.5m to NIS112.5m). This increase in expected dilution levels reflects not only the increase in warrants outstanding but also the increase in the share price from NIS1.91 to the current NIS3.55 since our last valuation update on 13 December. The latter, in particular, has resulted in a sharp increase in the level of in-the-money warrants, which we include in the share dilution calculation.

Exhibit 8: Foresight – DCF valuation

NISm	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2026e norm.
EBITDA	(13.9)	(15.8)	(14.5)	11.9	35.4	34.5	50.0	65.6	86.1	108.7	108.7
EBITDA margin (%)	N/A	(27.2)	(2.5)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Change in working capital	(0.0)	(0.0)	(0.4)	(6.0)	(4.2)	(1.1)	(4.3)	(4.7)	(5.8)	(6.5)	(7.8)
Capex	(1.5)	(1.5)	(1.5)	(1.9)	(3.4)	(2.7)	(3.3)	(3.8)	(4.6)	(5.4)	(7.8)
Tax	0.0	0.0	0.0	0.0	0.0	0.0	(12.4)	(16.2)	(21.3)	(28.0)	(26.9)
Other non-cash items	0.9	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Free cash flow	(14.4)	(16.9)	(16.1)	4.4	28.2	31.1	30.5	41.3	54.8	69.2	66.4
Terminal value										569.9	
Total cash flow	(14.4)	(16.9)	(16.1)	4.4	28.2	31.1	30.5	41.3	54.8	639.1	
Discounted cash flows	(12.6)	(12.8)	(10.6)	2.5	14.0	13.4	11.5	13.5	15.6	158.0	
Sum of discounted cash flows		192.6	Net debt/(cash) end 2016				(14.4)	WACC		15.0%	
Adjusted net debt/(cash)		(167.6)	Adjustment for:					Terminal growth rate		3.0%	
Equity valuation		360.1	Equity issues/merger funding 2017 YTD				(40.6)	Terminal value/EV		74%	
Value of Rail Vision Stake		78.8	Theoretical cash in-the-money				(112.5)	Terminal value 2026		569.9	
Total group value		438.9	ESOP/warrant exercise (m)								
Number of shares, diluted (m)		132.9	Adjusted net debt/(cash)				(167.6)				
Value per Foresight share (NIS)		3.30									

Source: Edison Investment Research

Exhibit 9: Financial summary

	NISm	2016	2017e	2018e	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		0.0	0.0	0.6	5.8	43.1
EBITDA normalised		(9.1)	(13.0)	(15.4)	(14.2)	12.3
Operating profit normalised		(9.1)	(13.0)	(15.5)	(14.3)	12.1
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		(34.0)	0.0	0.0	0.0	0.0
Share-based payments		(7.6)	(0.9)	(0.4)	(0.4)	(0.4)
Reported operating profit		(50.7)	(13.9)	(15.9)	(14.7)	11.7
Net Interest		(0.2)	0.2	0.2	0.2	0.1
Joint ventures & associates (post tax)		(0.4)	(3.2)	(1.3)	2.6	16.1
Exceptionals		0.0	0.0	0.0	0.0	0.0
Profit before tax (norm)		(9.8)	(16.0)	(16.6)	(11.5)	28.3
Profit before tax (reported)		(51.3)	(16.9)	(17.0)	(11.9)	28.0
Reported tax		0.0	0.0	0.0	0.0	0.0
Profit after tax (norm)		(9.8)	(16.0)	(16.6)	(11.5)	28.3
Profit after tax (reported)		(51.3)	(16.9)	(17.0)	(11.9)	28.0
Minority interests		0.0	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(9.8)	(16.0)	(16.6)	(11.5)	28.3
Net income (reported)		(51.3)	(16.9)	(17.0)	(11.9)	28.0
Basic average number of shares outstanding (m)		67.3	91.6	94.2	94.2	94.2
EPS – basic normalised (NIS)		(0.14)	(0.17)	(0.18)	(0.12)	0.30
EPS – diluted normalised (NIS)		(0.14)	(0.17)	(0.18)	(0.12)	0.21
EPS – basic reported (NIS)		(0.76)	(0.18)	(0.18)	(0.13)	0.30
Dividend (NIS)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	N/A	N/A	905.6	637.6
EBITDA margin (%)		N/A	N/A	-2659.1	-242.5	28.6
Normalised operating margin (%)		N/A	N/A	-2673.8	-245.1	28.1
BALANCE SHEET						
Fixed assets		5.1	3.0	3.1	7.1	8.8
Intangible assets		0.0	0.0	0.0	0.0	0.0
Tangible assets		0.3	1.7	3.1	4.4	6.1
Investments & other		4.8	1.3	0.1	2.7	2.7
Current assets		15.0	41.4	24.6	4.8	19.9
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		0.4	0.4	0.4	1.0	7.1
Cash & cash equivalents		14.4	40.8	24.1	3.7	12.7
Other		0.2	0.2	0.2	0.2	0.2
Current liabilities		(1.8)	(1.8)	(1.8)	4.5	0.0
Creditors		(1.8)	(1.8)	(1.8)	0.0	0.0
Tax and social security		0.0	0.0	0.0	0.0	0.0
Short-term borrowings		0.0	0.0	0.0	4.5	0.0
Other		0.0	0.0	0.0	0.0	0.0
Long-term liabilities		(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Long-term borrowings		0.0	0.0	0.0	0.0	0.0
Other long-term liabilities		(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Net assets		16.8	41.1	24.4	14.9	27.2
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		16.8	41.1	24.4	14.9	27.2
CASH FLOW						
Operating cash flow before WC and tax		(9.1)	(13.0)	(15.4)	(14.2)	12.3
Working capital		1.2	(0.0)	(0.0)	(0.4)	(6.0)
Exceptional & other		(1.5)	0.0	0.0	0.0	0.0
Tax		0.0	0.0	0.0	0.0	0.0
Net operating cash flow		(9.4)	(13.0)	(15.4)	(14.5)	6.3
Capex		(0.3)	(1.5)	(1.5)	(1.5)	(1.9)
Acquisitions/disposals		(4.9)	0.0	0.0	0.0	0.0
Net interest		0.0	0.2	0.2	0.2	0.1
Equity financing		24.1	40.6	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		4.9	0.0	0.0	0.0	0.0
Net cash flow		14.8	26.4	(16.8)	(15.9)	4.5
Opening net debt/(cash)		0.0	(14.4)	(40.8)	(24.1)	(8.2)
FX		(0.0)	(0.0)	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(14.4)	(40.8)	(24.1)	(8.2)	(12.7)

Source: Foresight Autonomous Holdings accounts, Edison Investment Research

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