

December 5, 2022

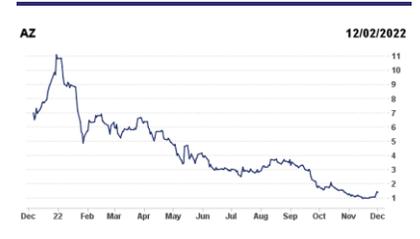
A2Z Smart Technologies Corp. (AZ)

Top Pilots Awaiting Takeoff; One Launch Changes Whole Trajectory

- ▶ We had a chance to catch up with the management team from A2Z (AZ: Buy, PT \$18) at Benchmark's 11th annual Discovery Conference in NYC. While the news flow has been slower than we would prefer, we note that the company has ~5 material pilots to go along with their growing order volume in Israel as proof of concept. And, after the recent private placement, we believe the company has sufficient funding to carry them through the greenlighting of any one of those pilots, with additional internal funding on standby should it be necessary. We acknowledge that the environment is challenging for new investment adoption but continue to see signs of interest and demand that reinforce our confidence in a positive outcome. We think just one successful transition from pilot to rollout changes the entire tenor of the conversation and likely jumpstarts an adoption chain reaction.
- ▶ The primary change in the narrative, from our point of view, comes from what we would call a sharpening of focus around the existing business opportunities. It seems easy to forget how relatively small A2Z is compared with both the addressable market opportunity and when paired with the major chains that have taken an interest in their smart cart product. As such, we find it sensible for A2Z to focus on 2 primary objectives: 1) turning an existing pilot into an order outside of Israel, which we believe could happen in 1H22; and 2) focusing on developing newer, cost-efficient carts while deepening their data capabilities, which will ultimately drive a significant high-margin revenue stream. It is difficult to predict which major chain in which country will ultimately convert (our best guess is Singapore) but we like how A2Z has built a translatable solution regardless of region that has enough customizable tech to suit any solution ask, leading to significant scale over time. And we get the sense that just one converted pilot to rollout would unlock a rapidly scaling event from multiple other pilot conversions or pilot initiations.
- ▶ Given what we see as a more refined focus as A2Z works with their existing resource base, we would expect new pilots to be limited. As such, we have modestly reduced our near-term revenue forecast, although, as noted previously, timing and magnitude of orders can be difficult to predict. We do believe that A2Z's existing order in Israel could continue to grow, and that it could also inspire others in market to follow suit or be left out; most of the metrics from A2Z's Israeli cart rollout suggest a material uplift in AOV and significant customer demand. However, the real proof of concept that could open up multiple international markets would come from a conversion of a pilot in Mexico, Singapore, Thailand, the US or Western Europe. In the meantime, we believe A2Z is nearing completion of a modified, scale-free cart that is also lighter weight which would reduce production costs by ~40%, with a next-gen cart possibly out towards the end of 2023 that could bring a full-service cart to market at a 60% cost reduction.

Change in Earnings Forecast

Rating:	Buy
Current Price	\$1.51
Price Target	\$18.00
52-Wk Range	\$0.89 - \$11.15
Market Cap (mm)	\$46
Enterprise Value (mm)	\$43
Shares Outstanding (mm)	30
Average Volume (000s)	61
Sector Weight	Overweight



Daniel L. Kurnos, CFA

(561) 914-7882

dkurnos@benchmarkcompany.com

FY Dec		Q1	Q2	Q3	Q4	Prior	Total	EV/EBITDA
EBITDA	2022E	(\$3)A	(\$3)A	(\$2)A	(\$2)E	(\$53)E	(\$29)E	-0x
	2023E	(\$3)E	(\$4)E	(\$15)E	(\$19)E	(\$58)E	(\$41)E	-0x
	2024E	(\$10)E	(\$3)E	(\$5)E	\$2E	(\$36)E	(\$16)E	-0x
Revenue (m)	2022E	\$1A	\$1A	\$3E	\$3E	\$20E	\$9E	
	2023E	\$3E	\$4E	\$8E	\$19E	\$45E	\$35E	
	2024E	\$24E	\$31E	\$40E	\$52E	\$155E	\$146E	

A2Z Valuation Analysis <i>(\$ in millions, except per share data)</i>		
Fiscal Year Ending December 31,	2023E	PF2024E
Stock Price	\$1.51	\$1.51
Revenue		
Diluted Shares	30,338	30,338
Market Capitalization	\$45,810	\$45,810
Total Debt	(1,341)	(1,341)
Cash	4,294	4,294
Enterprise Value	42,857	42,857
Revenue	34,590	151,940
Multiple	1.2x	0.3x
Target Multiple		4x
Implied Price		\$17.71
Price Target		\$18.00
Upside to Target		1091.9%

Source: Company reports and The Benchmark Company Estimates.

A2Z - Income Statement, 2019-2024E						
<i>(\$ in thousands, except per share data)</i>						
Fiscal Year Ending December 31,	2019	2020	2021	2022E	2023E	2024E
Revenues	\$1,384	\$1,068	\$2,685	8,626	34,590	146,340
<i>Yr.-Yr. Pct. Change</i>	-99.3%	-22.8%	0.0%	0.0%	301.0%	323.1%
COGS	(783)	(853)	(2,029)	(26,189)	(52,500)	(130,000)
<i>Pct. of Revenue</i>	56.6%	79.9%	75.6%	303.6%	151.8%	88.8%
Gross Profit	601	215	656	(17,563)	(17,910)	16,340
<i>Pct. of Revenue</i>	43.4%	20.1%	24.4%	-203.6%	-51.8%	11.2%
<i>Yr.-Yr. Pct. Change</i>	-99.3%	-64.2%	205.1%	-2777.3%	2.0%	-191.2%
Operating expenses						
Research and Development	(414)	(418)	(3,222)	(5,129)	(7,529)	(9,929)
<i>Pct. of Revenue</i>	29.9%	39.1%	120.0%	59.5%	21.8%	6.8%
Sales and Marketing	(87)	(108)	(102)	(2,101)	(8,101)	(14,101)
<i>Pct. of Revenue</i>	6.3%	10.1%	3.8%	24.4%	23.4%	9.6%
General and Administrative	(754)	(2,365)	(6,494)	(9,993)	(10,993)	(11,993)
<i>Pct. of Revenue</i>	54.5%	221.4%	241.9%	115.8%	31.8%	8.2%
Total Operating Expense	(1,255)	(2,891)	(9,818)	(17,223)	(26,623)	(36,023)
<i>Pct. of Revenue</i>	90.7%	270.7%	365.7%	199.7%	77.0%	24.6%
Adjusted EBITDA	(385)	(1,862)	(7,999)	(29,099)	(40,841)	(15,991)
<i>Yr.-Yr. Pct. Change</i>	-101.9%	-109.2%	0.0%	0.0%	40.4%	-60.8%
<i>EBITDA margin</i>	-64.1%	-866.0%	-297.9%	-337.3%	-118.1%	-10.9%
Depreciation and amortization	205	213	321	1,141	1,692	1,692
Stock based compensation & Other	64	601	842	4,546	2,000	2,000
Operating income	(\$654)	(\$2,676)	(\$9,162)	(34,786)	(44,533)	(19,683)
<i>Operating margin</i>	-47.3%	-250.6%	-341.2%	-403.3%	-128.7%	-13.5%
Other, Net	(1,792)	(3,228)	(30,895)	(38)	(44)	(44)
Financial Expense, Net	(109)	(32)	(91)	(271)	(556)	(556)
Income before taxes	(2,555)	(5,936)	(40,148)	(35,095)	(45,089)	(20,239)
Tax provisions	(380)	(17)	(142)	0	0	0
Tax percentage	-14.9%	-0.3%	-0.4%	0.0%	0.0%	0.0%
Other Comprehensive/Non-Controlling Interest	(75)	(1,311)	555	(156)	0	0
Net Loss Attributable to A2Z Shareholders	(\$3,010)	(\$7,264)	(\$39,735)	(\$35,251)	(\$45,089)	(\$20,239)
EPS	(\$0.07)	(\$0.12)	(\$1.70)	(\$1.29)	(\$1.65)	(\$0.74)
Shares Outstanding	40,455	50,275	23,341	27,359	27,359	27,359
Free Cash Flow (FCF)						
EBITDA	(385)	(1,862)	(7,999)	(29,099)	(40,841)	(15,991)
Cash Interest	(109)	(32)	(91)	(\$271)	(\$556)	(\$556)
Cash Taxes	(380)	(17)	(142)	\$0	\$0	\$0
Capital Expenditures	(28)	(227)	(412)	(\$217)	(\$16)	(\$16)
Working Capital Adjustments	0	0	0	\$0	\$0	\$0
Free Cash Flow	(902)	(2,138)	(8,644)	(29,587)	(41,413)	(16,563)
FCF per Diluted Share	(\$0.02)	(\$0.04)	(\$0.37)	(\$1.08)	(\$1.51)	(\$0.61)
<i>Yr.-Yr. Pct. Change</i>						

Source: Company Reports and The Benchmark Company Estimates

A2Z - Income Statement, 2022E					
(\$ in thousands, except per share data)					
	1Q	2Q	3Q	4QE	2022E
Revenues	\$1,446	\$1,430	\$2,650	\$3,100	\$8,626
<i>Yr.-Yr. Pct. Change</i>					
COGS	(1,170)	(1,219)	(2,220)	(2,250)	(26,189)
<i>Pct. of Revenue</i>	80.9%	85.2%	83.8%	72.6%	303.6%
Gross Profit	\$276	\$211	\$430	\$850	(\$17,563)
<i>Pct. of Revenue</i>		14.8%	16.2%	27.4%	-203.6%
<i>Yr.-Yr. Pct. Change</i>					
Operating expenses					
Research and Development	(1,065)	(1,106)	(1,208)	(1,750)	(5,129)
<i>Pct. of Revenue</i>	73.7%	77.3%	45.6%	56.5%	59.5%
Sales and Marketing	(83)	(199)	(69)	(1,750)	(2,101)
<i>Pct. of Revenue</i>	5.7%	13.9%	2.6%	56.5%	24.4%
General and Administrative	(1,846)	(2,276)	(5,296)	(575)	(9,993)
<i>Pct. of Revenue</i>	127.7%	159.2%	199.8%	18.5%	115.8%
Total Operating Expense	(2,994)	(3,581)	(6,573)	(4,075)	(17,223)
<i>Pct. of Revenue</i>	207.1%	250.4%	248.0%	131.5%	199.7%
Adjusted EBITDA	(2,526)	(\$3,096)	(\$1,845)	(\$2,302)	(\$29,099)
<i>Yr.-Yr. Pct. Change</i>					
<i>EBITDA margin</i>	-174.7%	-216.5%	-69.6%	-74.3%	-337.3%
Depreciation and amortization	132	163	423	423	1,141
Stock based compensation & Other	60	111	3,875	500	4,546
Operating income	(\$2,718)	(\$3,370)	(\$6,143)	(\$3,225)	(\$34,786)
<i>Operating margin</i>		-235.7%	-231.8%	-104.0%	-403.3%
Other, Net	(16)	0	(11)	(11)	(38)
Financial Expense, Net	2	5	(139)	(139)	(271)
Income before taxes	(2,732)	(3,365)	(6,293)	(3,375)	(35,095)
Tax provisions	0	0	0	0	0
<i>Tax percentage</i>	0.0%	0.0%	0.0%	0.0%	0.0%
Other Comprehensive/Non-Controlling Interest	(572)	416	0	0	(156)
Net Loss Attributable to A2Z Shareholders	(\$3,304)	(\$2,949)	(\$6,293)	(\$3,375)	(\$35,251)
EPS	(\$0.12)	(\$0.11)	(\$0.23)	(\$0.12)	(\$1.29)
Shares Outstanding	26,836	27,262	27,359	27,359	27,359
Free Cash Flow (FCF)					
EBITDA	(2,526)	(3,096)	(1,845)	(2,302)	(29,099)
Cash Interest	2	5	(139)	(139)	(271)
Cash Taxes	0	0	0	0	0
Capital Expenditures	(205)	(4)	(4)	(4)	(217)
Working Capital Adjustments	0	0	0	0	0
Free Cash Flow	(2,729)	(3,095)	(1,988)	(2,445)	(29,587)
FCF per Diluted Share	(\$0.10)	(\$0.11)	(\$0.07)	(\$0.09)	(\$1.08)
<i>Yr.-Yr. Pct. Change</i>					

Source: Company Reports and The Benchmark Company Estimates

A2Z - Income Statement, 2023E					
<i>(\$ in thousands, except per share data)</i>					
	1QE	2QE	3QE	4QE	2023E
Revenues	\$2,535	\$4,485	\$8,385	\$19,185	\$34,590
<i>Yr.-Yr. Pct. Change</i>		213.6%	216.4%	518.9%	301.0%
COGS	(1,500)	(3,000)	(15,000)	(33,000)	(52,500)
<i>Pct. of Revenue</i>	54.5%	53.3%	52.5%	52.0%	151.8%
Gross Profit	\$1,035	\$1,485	(\$6,615)	(\$13,815)	(\$17,910)
<i>Pct. of Revenue</i>	40.8%	33.1%	-78.9%	-72.0%	-51.8%
<i>Yr.-Yr. Pct. Change</i>	275.0%	603.8%	-1638.4%	-1725.3%	2.0%
Operating expenses					
Research and Development	(1,665)	(1,706)	(1,808)	(2,350)	(7,529)
<i>Pct. of Revenue</i>	65.7%	38.0%	21.6%	12.2%	21.8%
Sales and Marketing	(1,583)	(1,699)	(1,569)	(3,250)	(8,101)
<i>Pct. of Revenue</i>	62.4%	37.9%	18.7%	16.9%	23.4%
General and Administrative	(2,096)	(2,526)	(5,546)	(825)	(10,993)
<i>Pct. of Revenue</i>	82.7%	56.3%	66.1%	4.3%	31.8%
Total Operating Expense	(5,344)	(5,931)	(8,923)	(6,425)	(26,623)
<i>Pct. of Revenue</i>	210.8%	132.2%	106.4%	33.5%	77.0%
Adjusted EBITDA	(3,386)	(\$3,523)	(\$14,615)	(\$19,317)	(\$40,841)
<i>Yr.-Yr. Pct. Change</i>	34.0%	13.8%	692.1%	739.1%	40.4%
<i>EBITDA margin</i>	-133.6%	-78.6%	-174.3%	-100.7%	-118.1%
Depreciation and amortization	423	423	423	423	1,692
Stock based compensation & Other	500	500	500	500	2,000
Operating income	(\$4,309)	(\$4,446)	(\$15,538)	(\$20,240)	(\$44,533)
<i>Operating margin</i>	-170.0%	-99.1%	-185.3%	-105.5%	-128.7%
Other, Net	(11)	(11)	(11)	(11)	(44)
Financial Expense, Net	(139)	(139)	(139)	(139)	(556)
Income before taxes	(4,448)	(4,585)	(15,677)	(20,379)	(45,089)
Tax provisions	0	0	0	0	0
<i>Tax percentage</i>	0.0%	0.0%	0.0%	0.0%	0.0%
Other Comprehensive/Non-Controlling Interest	0	0	0	0	0
Net Loss Attributable to A2Z Shareholders	(\$4,448)	(\$4,585)	(\$15,677)	(\$20,379)	(\$45,089)
EPS	(\$0.16)	(\$0.17)	(\$0.57)	(\$0.74)	(\$1.65)
Shares Outstanding	27,359	27,359	27,359	27,359	27,359
Free Cash Flow (FCF)					
EBITDA	(3,386)	(3,523)	(14,615)	(19,317)	(40,841)
Cash Interest	(139)	(139)	(139)	(139)	(556)
Cash Taxes	0	0	0	0	0
Capital Expenditures	(4)	(4)	(4)	(4)	(16)
Working Capital Adjustments	0	0	0	0	0
Free Cash Flow	(3,529)	(3,666)	(14,758)	(19,460)	(41,413)
FCF per Diluted Share	(\$0.13)	(\$0.13)	(\$0.54)	(\$0.71)	(\$1.51)
<i>Yr.-Yr. Pct. Change</i>	26.8%	18.0%	642.4%	695.9%	40.0%

Source: Company Reports and The Benchmark Company Estimates

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Sell	7	1.9%	0	0%

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Benchmark Disclosures as of December 5, 2022

Company	Disclosure
A2Z Smart Technologies Corp.	3

Investment Risk

There are a multitude of risks we see A2Z facing as they begin their journey in a relatively nascent marketplace. Although they already have 1 commercial order for \$6 million and 3 pilots signed, there is no guarantee that they will be successful in winning new business or expanding existing relationships. There is also substantial competition in the space, with established big names and new startups entering on a regular basis. COVID-19 has created substantial headwinds for the entire industry as well. Even with some initial wins on the books, A2Z is still effectively in start-up mode and will likely require additional capital infusions to fund growth. And, as is often the case in newly created, early-stage markets, valuation remains highly subjective.

Valuation Methodology

As is often the case in newly created, early-stage markets, valuation remains highly subjective. If public estimates are accurate, Caper was acquired by Instacart for ~35x revenue. We also believe Standard Cognition and Tracxpoint carry private valuations north of \$1 billion. However, there are no real public yardsticks by which to compare A2Z, and thus we are left to rely on an EV/Revenue multiple based off of a model that has a multitude of unknown variables around order size, timing and SaaS uplift. While growth multiples have come in substantially, most of our broader streaming, early stage and SaaS-exposed companies still tend to trade in a range of 4-6x. As such, we are ascribing a 5x 2024E revenue multiple to arrive at our \$18 per share price target. We note that our target does not include any incremental value from the other A2Z business segments, which we view as free as optionality.

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