

ELRON

Translation of Immediate Report Filed by Elron on July 16, 2020 with the Israeli Securities Authority

Tel-Aviv, July 16, 2020 – Elron Electronic Industries Ltd. ("Elron") (TASE: ELRN) hereby announces with respect to CartiHeal (2009) Ltd. ("CartiHeal") as follows:

The Transaction

CartiHeal and shareholders of CartiHeal, including Elron, have entered into definitive agreements with Bioventus LLC ("Bioventus"), an existing shareholder of CartiHeal, as follows:

- an equity investment by Bioventus in CartiHeal of \$15-20 million at a pre-money valuation of \$180 million. Out of this sum, \$15 million was invested immediately (the "Investment");
- an exclusive option for Bioventus to acquire 100% of CartiHeal's share capital (the "Call Option");
- a put option for CartiHeal to require that Bioventus purchases 100% of CartiHeal's share capital (the "Put Option").

The Call Option is exercisable from the closing of the Investment. The Put Option shall be exercisable and subject to pivotal clinical trial success, including on certain secondary endpoints, and the FDA approving the Agili-C device with a label consistent in all respects with pivotal clinical trial success - see also "Conditions Precedent" in this report. The Call Option and Put Option shall terminate 45 days following obtainment of FDA approval and fulfillment of customary closing conditions.

Elron's holding in CartiHeal following completion of the Investment was reduced from approximately 27% on a fully diluted basis to approximately 25% on a fully diluted basis.

The Consideration

In the event of exercise of the Call Option or the Put Option, Elron's expected share in the total consideration for the acquisition of CartiHeal amounts to \$126-129 million in the aggregate, and is comprised of (i) \$90-92 million (subject to customary financial adjustments) payable at the acquisition closing (including \$12 million to be deposited in escrow for 24 months, primarily to secure certain indemnification obligations of the selling shareholders to Bioventus), and (ii) \$36-37 million payable at such time when the sales of the Agili-C and certain other revenues resulting from the commercializing of other CartiHeal technology shall generate at least \$100 million in revenues during a consecutive 12-month period (the "Sales Milestone").

As stated in Section 26 of Part I (Description of Corporation's Business) of Elron's annual report for 2019 published on March 19, 2020, which is included by reference herein, CartiHeal expects to complete the follow-up period for the pivotal clinical trial of the Agili-C device in October 2021, and to announce final trial results at the end of 2021. Shortly thereafter and insofar as the results will demonstrate success in the

ToHa Tower, 114 Yigal Alon St., 27th floor, Tel Aviv 6744320, Israel

Tel: 972-3-6075555 | Fax: 972-3-6075556 | Email: info@elron.com | www.elron.com

ELRON

pivotal trial, CartiHeal is expected to submit a U.S. marketing approval application to the FDA. FDA approval, if received, may take approximately one year from submission to approval.

Bioventus will be entitled to terminate the Call Option and Put Option at any time ending 30 days after receipt by CartiHeal of the statistical report regarding the final results of the pivotal clinical trial of the Agili-C device ("Termination End Date"), subject to payment of \$30 million to CartiHeal. If by the Termination End Date Bioventus has not notified it wishes to terminate the Call Option and Put Option, it will place an amount of \$50 million in escrow to ensure the Put Option and exercise of the Call Option. If Bioventus fails to acquire CartiHeal following exercise of the Call Option or Put Option, CartiHeal will be entitled to the \$50 million deposited in escrow plus forfeiture of all shares held by Bioventus in CartiHeal.

Conditions Precedent

In addition to the terms outlined above, the completion of the exercise of the Call Option or the Put Option and resulting acquisition of CartiHeal are each subject, among other things, to customary closing conditions as well as obtaining applicable regulatory, corporate and other third-party approvals.

The exercise of the Put Option is subject to study success defined as follows: Statistical superiority of the Agili-C implant over the current surgical standard of care (SSOC), as measured in the difference from baseline to 24 months follow-up in Overall KOOS self-reported outcome (Pain, Symptoms, Quality of Life, Activities of Daily Living and Sports) in the primary endpoint of the Full Analysis Set population, in the secondary endpoint of the subgroup of patients with mild-moderate osteoarthritis (Kellgren-Lawrence grade 2-3), and in the secondary endpoint of the subgroup of patients with total lesion(s) size $>3\text{cm}^2$.

There is no assurance as to the consummation of the exercise of the Call Option or the Put Option, or the timing thereof.

The above projected data and estimates are forward-looking information, as defined in Section 32A of the Israel Securities Law, 5728-1968, and are based on Elron's and CartiHeal's current assessments of information relating to future events whose occurrence is not certain and which is not within the sole control of Elron and CartiHeal, primarily the Conditions Precedents, whose occurrence is dependent upon the parties to the transactions, and other factors which may cause a materially different result or may result in the transactions pursuant to the Call Option or Put Option not taking place.

Conference Call

Elron will host a Zoom video webinar for investors on July 16, 2020 at 12:00pm IDT to discuss the transaction described in this Report. Details on how to join the webinar will be provided in a separate Immediate Report.

ToHa Tower, 114 Yigal Alon St., 27th floor, Tel Aviv 6744320, Israel

Tel: 972-3-6075555 | Fax: 972-3-6075556 | Email: info@elron.com | www.elron.com

ELRON

The report on the negotiations leading up to the definitive agreements described herein was delayed in accordance with Section 36(b) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970, due to information provided to Elron by Bioventus and CartiHeal's management, that disclosure could prevent the signing of definitive agreements. The impediment to the filing of the report was removed on July 15, 2020 at 4:15pm IDT.

ToHa Tower, 114 Yigal Alon St., 27th floor, Tel Aviv 6744320, Israel

Tel: 972-3-6075555 | Fax: 972-3-6075556 | Email: info@elron.com | www.elron.com