Elron Public Investors Webinar which took place in Hebrew on July 16, 2020 (For Webinar in Hebrew see: https://youtu.be/iwSqb97UY6c)

This conference call is to present the CartiHeal-Bioventus transaction – an investment combined with a put option (a structured M&A deal).

Mr. Yaron Elad, CEO of Elron, introduced himself, welcomed the participants and informed participants that a recording of the call will be released on the public reporting systems of the ISA and TASE ('Magna' and 'Maya'), and an English translation will be posted on Elron's website. He noted that some of the statements made over the course of the presentation may be forward-looking, as defined by the Israeli Securities Law, 5728-1968, based on the current estimates of Elron and CartiHeal in respect of information pertaining to future events, the occurrence of which is uncertain and lies beyond the exclusive control of Elron and CartiHeal.

Earlier today, we released an immediate report on the matters discussed herein, which was filed on the 'Magna' website. This call is to be considered in the context of the immediate report.

The transaction specifics

As announced this morning, CartiHeal and its shareholders, including Elron, signed definitive agreements with Bioventus LLC for a two-phase transaction combining an investment and an option to sell and acquire the company (a structured M&A deal).

Bioventus joined CartiHeal as a strategic investor in early 2018. Bioventus' joining CartiHeal at an early stage reflects Elron's strategy to create value for its medical device companies, including by adding strategic investors who have the potential to acquire such companies in the future. The first investment of Bioventus derived from the growing interest in CartiHeal's technology at the beginning of its pivotal trial, as Bioventus stated at that time.

Now, about 6 months after CartiHeal has completed an interim analysis of the trial **and stopped the enrollment** of patients in view of anticipated success, Bioventus made another U.S. $15 million investment in CartiHeal, based on a pre-money value of U.S. $180 million, twice its value in the previous financing round. The value attributed to CartiHeal obviously reflects its significant clinical progress, as elaborated below.

Bioventus' investment is expected to provide CartiHeal with the full funding it requires to complete the trial follow-up period, procurement of inventory, filing Product Marketing Approval (PMA) application to the FDA and everything required in between.

The transaction is essentially a structured M&A deal.

Bioventus has an exclusive call option to acquire 100% of CartiHeal's share capital. Bioventus' call option is exercisable commencing from yesterday – the day of the investment.

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CartiHeal and its shareholders have a corresponding put option to sell 100% of its share capital to Bioventus. The put option will be exercisable upon the receipt of FDA approval for CartiHeal's Agili-C implant, and will remain in effect for up to 45 days after receipt of the approval, if any.

If the sale is executed, in the context of either the call option or the put option, Elron's expected proceeds will total approximately. U.S. $130 million, being just Elron's share in the total consideration, reflecting its holding of 25%, on a fully diluted basis following the financing round. This amount includes the consideration to be paid upon the execution of the acquisition, of approximately. U.S. $90-92 million, and U.S. $37 million, to be paid upon achievement of a sales milestone as specified in the report. The sales milestone – U.S. $100 million over 12 consecutive months – is after CartiHeal will be held by Bioventus.

The price of this potential acquisition definitely meets our expectations, representing a 5-7x multiple on Elron's investment in CartiHeal, in the amount of U.S. $18 million.

As aforesaid, in order to exercise its call option, CartiHeal must meet a fundamental and important condition of pivotal clinical trial success.

At the end of 2017, CartiHeal began enrolling patients in a pivotal clinical trial, in order to submit a PMA application to the FDA. The trial compares patients who received CartiHeal's implant with those who received the existing surgical standard of care (SSOC).

Originally, a sample of 250-500 patients was planned for the trial, and it included pre-designed interim analyses. Already at the first interim analysis, after 250 patients had been enrolled, CartiHeal was able to stop the enrollment of further patients for the trial, in view of anticipated success in the final result analysis. This reflects success chances of at least 95% for meeting the trial's primary endpoint, while the analysis of the final results will be made after the end of the follow-up period for all patients participating in the trial, in October 2021. We will then announce the final results.

To clarify: the exercise of the put option will be based on the final result analysis, which is expected to be announced by the end of next year. The results must demonstrate success on the three following endpoints:

1. The primary endpoint of the trial – proof of statistical significance for the overall trial arm in comparison with the control arm.
2. A secondary endpoint – proof of statistical significance for a group of osteoarthritis patients, i.e. patients with mild or moderate knee degenerative arthritis.
3. An additional secondary endpoint – proof of statistical significance for a group of patients with large lesions (defined as 3 cm in total and more).

The trial has additional secondary endpoints, but the trial's statistical success depends only on the achievement of the three endpoints which I previously highlighted, namely the primary endpoint and the two specific secondary endpoints.

If CartiHeal meets this definition of success, and receives FDA approval consistent with the trial's success, it will be entitled to exercise the put option.

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It is emphasized that the 24 months follow-up period ends in October 2021, two years after the enrollment of the last patient. CartiHeal is expecting to publish the final trial results by the end of 2021. Soon thereafter, and if the results will demonstrate success in the pivotal trial, CartiHeal is expected to submit a PMA application to the FDA. Receipt of the marketing approval, if any, may take about one year from the date of submission of the application.

It is important to note that CartiHeal is considering a modular FDA application track for the trial, such that it can submit certain chapters of the application even prior to the end of the follow-up period, which may shorten the period until marketing approval is received.

The structure and timeline of the transaction

An investment of U.S. $15 million in Cartiheal by Bioventus was closed yesterday. Bioventus consequently holds approximately 10% of the company.

In the 30 days following the announcement of the final results, based on the statistical report (as aforesaid, expected towards the end of 2021), Bioventus is entitled to withdraw from the deal, for a U.S. $30 million breakup fee to CartiHeal. If it does not exercise this right, the transaction moves forward hopefully towards FDA approval and exercise of the put option.

Since the transaction includes a put option for the sellers, we made sure that Bioventus deposits appropriate collateral to secure our ability to exercise the put option: a U.S. $50 million escrow deposit and additional collateral.

As noted, if the sale is executed, Elron expects a total consideration of approximately. U.S. $126-129 million. This amount includes up to U.S. $92 million to be paid at the execution of the acquisition, and a potential U.S. $36-37 million, to be paid upon achievement of a sales milestone.

Bioventus is a global company providing regenerative/orthobiologic solutions for healing bone injuries and symptomatic treatment of joint diseases. Therefore, CartiHeal is a potential strategic acquisition which is expected to be substantial for its core business, by complementing the joint healing solutions and enabling it to provide a comprehensive package of treatment and **healing of joint problems**.

As we repeatedly stated over the last years, we have great faith in CartiHeal and the clinical results it achieved. In the last 6 months, we vigorously examined strategic alternatives for the company, including numerous and diverse potential investment options. I am pleased to announce the closing of an excellent transaction for CartiHeal, Elron and its shareholders, which unlocks the value inherent in the technology of CartiHeal, in which we have been investing for many years.

Trial specifics

Mr. Zvika Slovin, Chairman of CartiHeal and Head of Medtech investments of Elron since 2008, who has been following CartiHeal since Elron's first investment in 2012, provided further details on the trial.

After a short video on the product developed was presented, Mr. Slovin presented the various stages of osteoarthritis (OA) and explained that the current solutions – replacing the joint by a metal implant – mainly target the early stages of the disease, and are all palliative and symptomatic treatments, which do not cure the disease itself.

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CartiHeal and Agili-C offer a solution that can be applied also in more advanced stages of the disease, and which treats the disease itself, rather than just relieving its symptoms. The product is an aragonite hydroxyapatite implant, made of common sea coral. It is orthobiologically smart, is available in different structures and sizes, and is aimed at encouraging growth of natural tissue. The implant is biodegradable, and is completely replaced by natural bone. The implant has two phases – the top part treats the cartilage, and the lower part is similar to and replaced by the bone. The entire process takes place inside the joint.

A goat model of the mechanism of cartilage formation, and the treatment of a young male, until full recovery 24 months post op, were presented, 3-, 6- and 12-weeks post op.

One of many peer-reviewed articles in this respect, published in "Orthopedics This Week" stated, in reference to the pre-pivotal trial, that "If the Agili-C study shows clear superiority over microfracture and debridement for the treatment of joint surface knee lesions, it will truly be a landmark event."

The study is conducted in 32 centers, 50% of which in Europe and 50% in the U.S., and comprises a treated arm – in which patients receive the implant, and a control arm, in which patients receive the current SSOC.

The study was planned for 250-500 patients, with a minimum of 250 patients and an option to conduct interim analyses for every 50 patient cohort. When the analysis indicates a probability of at least 95% for the trial to end successfully, the enrollment of patients can be stopped. As aforesaid, we reached this endpoint after 250 patients only, and are therefore now only following-up on these patients. The follow-up period is 24 months.

The current SSOC offers either debridement – cleaning cartilage debris which is the primary cause of pain, while the lesion remains; or microfracture which includes in addition some perforation of the bone in order to stimulate growth. The CartiHeal implant is inserted into the damaged area, under the bone attached to it.

Clinical success is measured on a KOOS (Knee injury and Osteoarthritis Outcome Score) scale, ranging between 0-100 – from a perfectly functioning joint to a joint that needs to be replaced. The standard comprises level of pain, symptoms such as range of motion, swelling, and activities of daily living (ADL).

Patients who meet the study criteria are enrolled in the trial, and their baseline KOOS score is estimated. They are then randomly assigned by a computer to the treatment arm or the control arm, at a ratio of 2:1. Accordingly, they receive either the implant or the SSOC, and begin a 24-month follow-up. On the last visit, the patients' final KOOS is estimated.

Thereafter, a comparison is made of the aggregate results of the control group vs. the treatment group, and insofar as the statistical significance agreed with the FDA is reached, the trial is declared a success.

We have CE approval, and are currently at the U.S. pivotal trial stage. We are one of very few companies throughout the world to receive approval from the FDA to pursue a modular submission track. This enables us to start filing our PMA early, in chapters. After the completion of the trial,

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depending on its reaching success, the final application chapter is submitted. The review that follows normally takes a year, and then – if the study requirements are met – approval is granted.

Q&A

Q.: How does this affect Elron's financial statements?

Mr. Elad: As of now, the financial statements are not affected. If and when the acquisition is completed, and the proceeds received, we are likely to record most of the consideration as profit. The investment amount recorded in the books is negligible – approximately. U.S. $2 million, so most of the proceeds, assuming success, will be recorded as profit.

Q.: Are you pleased with the value of the transaction?

Mr. Elad: We certainly are pleased. The selling price is compatible with our expectations in respect of CartiHeal's value, given that it will receive FDA approval.

In view of the interim analysis, we believe that we can achieve the required clinical results and exercise the put option, while the company receives today the resources it needs, with minimal dilution for Elron.

Q.: How confident are you that the transaction will be closed?

Mr. Elad: The Bioventus team presented us with their plans for financing the acquisition, which looks convincing. In addition, we have a significant escrow deposit of U.S. $50 million, and an option to forfeit Bioventus' 10% shareholding in CartiHeal. These are sufficient securities for a put transaction.

Q.: Have you examined other alternatives?

Mr. Elad: Yes, we have. We decided to collaborate with Bioventus due to its genuine desire to integrate CartiHeal into its core business, and our belief that they will put in a lot of effort to achieve the sales milestone. They are very interested in the technology and deem CartiHeal as significant.

Q.: Can you elaborate on sales in Europe?

Mr. Elad: We have CE certification, but are currently focused on the trial follow-up and the FDA application. We will attend to sales in Europe at a later stage.

Q.: Do you have to meet all three endpoints in order to meet the preliminary condition?

Mr. Elad: Yes, all three endpoints must be met in order to determine statistical success in the trial.

Q.: Are there any trial centers in Israel as well?

Mr. Elad: Yes, there are.

Mr. Elad thanked the participants for their attendance and interest.

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