

SAPIENS INTERNATIONAL CORPORATION N.V. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands (except per share amounts)

	Three months ended		Year ended	
	December 31		December 31,	
	2020 <u>(unaudited)</u>	2019 <u>(unaudited)</u>	2020 <u>(unaudited)</u>	2019
Revenue	101,661	86,715	382,903	325,674
Cost of revenue	<u>60,288</u>	<u>51,782</u>	<u>226,929</u>	<u>196,153</u>
Gross profit	41,373	34,933	155,974	129,521
Operating expenses:				
Research and development, net	11,129	10,233	41,358	37,378
Selling, marketing, general and administrative	<u>20,019</u>	<u>14,477</u>	<u>69,613</u>	<u>54,274</u>
Total operating expenses	<u>31,148</u>	<u>24,710</u>	<u>110,971</u>	<u>91,652</u>
Operating income	10,225	10,223	45,003	37,869
Financial and other expenses, net	1,212	1,019	3,805	2,768
Taxes on income	<u>611</u>	<u>2,260</u>	<u>7,041</u>	<u>8,610</u>
Net income	<u>8,402</u>	<u>6,944</u>	<u>34,157</u>	<u>26,491</u>
Attributable to non-controlling interest	<u>83</u>	<u>110</u>	<u>382</u>	<u>244</u>
Net income attributable to Sapiens' shareholders	<u>8,319</u>	<u>6,834</u>	<u>33,775</u>	<u>26,247</u>
Basic earnings per share	<u>0.16</u>	<u>0.14</u>	<u>0.67</u>	<u>0.53</u>
Diluted earnings per share	<u>0.15</u>	<u>0.13</u>	<u>0.65</u>	<u>0.52</u>

Weighted average number of shares outstanding used to compute basic earnings per share (in thousands)	<u>53,715</u>	<u>50,109</u>	<u>51,208</u>	<u>50,031</u>
Weighted average number of shares outstanding used to compute diluted earnings per share (in thousands)	<u>54,541</u>	<u>51,009</u>	<u>52,159</u>	<u>50,653</u>

SAPIENS INTERNATIONAL CORPORATION N.V. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED NON-GAAP STATEMENTS OF INCOME

U.S. dollars in thousands (except per share amounts)

	Three months ended		Year ended	
	December 31		December 31,	
	2020 <u>(unaudited)</u>	2019 <u>(unaudited)</u>	2020 <u>(unaudited)</u>	2019 <u>(unaudited)</u>
Revenue	102,936	86,715	384,501	325,674
Cost of revenue	<u>55,892</u>	<u>48,313</u>	<u>211,560</u>	<u>182,662</u>
Gross profit	47,044	38,402	172,941	143,012
Operating expenses:				
Research and development, net	12,733	11,395	47,156	43,043
Selling, marketing, general and administrative	<u>15,645</u>	<u>12,662</u>	<u>57,863</u>	<u>47,763</u>
Total operating expenses	<u>28,378</u>	<u>24,057</u>	<u>105,019</u>	<u>90,806</u>
Operating income	18,666	14,345	67,922	52,206
Financial and other expenses, net	1,212	1,019	3,805	2,768
Taxes on income	<u>2,910</u>	<u>2,663</u>	<u>11,776</u>	<u>10,298</u>
Net income	<u>14,544</u>	<u>10,663</u>	<u>52,341</u>	<u>39,140</u>
Attributable to non-controlling interest	<u>83</u>	<u>110</u>	<u>382</u>	<u>244</u>
Net income attributable to Sapiens' shareholders	<u>14,461</u>	<u>10,553</u>	<u>51,959</u>	<u>38,896</u>

Basic earnings per share	<u>0.27</u>	<u>0.21</u>	<u>1.01</u>	<u>0.78</u>
Diluted earnings per share	<u>0.27</u>	<u>0.21</u>	<u>1.00</u>	<u>0.77</u>
Weighted average number of shares outstanding used to compute basic earnings per share (in thousands)	53,715	50,109	51,208	50,031
Weighted average number of shares outstanding used to compute diluted earnings per share (in thousands)	54,541	51,009	52,159	50,653

SAPIENS INTERNATIONAL CORPORATION N.V. AND SUBSIDIARIES

RECONCILIATION OF GAAP TO NON-GAAP RESULTS

U.S. dollars in thousands (except per share amounts)

	Three months ended December 31,		Year ended December 31,	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
GAAP revenue	101,661	86,715	382,903	325,674
Valuation adjustment on acquired deferred revenue	<u>1,275</u>	<u>-</u>	<u>1,598</u>	<u>-</u>
Non-GAAP revenue	<u>102,936</u>	<u>86,715</u>	<u>384,501</u>	<u>325,674</u>
GAAP gross profit	41,373	34,933	155,974	129,521
Revenue adjustment	1,275	-	1,598	-
Amortization of capitalized software	1,931	1,499	6,558	5,668
Amortization of other intangible assets	<u>2,465</u>	<u>1,970</u>	<u>8,811</u>	<u>7,823</u>
Non-GAAP gross profit	<u>47,044</u>	<u>38,402</u>	<u>172,941</u>	<u>143,012</u>
GAAP operating income	10,225	10,223	45,003	37,869
Gross profit adjustments	5,671	3,469	16,967	13,491
Capitalization of software development	(1,604)	(1,162)	(5,798)	(5,665)
Amortization of other intangible assets	1,204	563	3,316	2,177
Stock-based compensation	1,240	282	3,987	1,405
Acquisition-related costs *)	<u>1,930</u>	<u>970</u>	<u>4,447</u>	<u>2,929</u>
Non-GAAP operating income	<u>18,666</u>	<u>14,345</u>	<u>67,922</u>	<u>52,206</u>
GAAP net income attributable to Sapiens' shareholders	8,319	6,834	33,775	26,247
Operating income adjustments	8,441	4,122	22,919	14,337
Taxes on income	<u>(2,299)</u>	<u>(403)</u>	<u>(4,735)</u>	<u>(1,688)</u>
Non-GAAP net income attributable to Sapiens' shareholders	<u>14,461</u>	<u>10,553</u>	<u>51,959</u>	<u>38,896</u>

(*) Acquisition-related costs pertain to charges on behalf of M&A agreements related to future performance targets and retention criteria, as well as third-party services, such as, tax, accounting and legal rendered until the acquisition date.

Summary of NON-GAAP Financial Information

U.S. dollars in thousands (except per share amounts)

	<u>Q4 2020</u>	<u>Q3 2020</u>	<u>Q2 2020</u>	<u>Q1 2020</u>	<u>Q4 2019</u>
Revenues	102,936	97,968	93,063	90,534	86,715
Gross profit	47,044	44,206	41,900	39,791	38,402
Operating income	18,666	17,859	16,783	14,614	14,345
Net income to Sapiens' shareholders	14,461	13,746	13,340	10,412	10,553
Adjusted EBITDA	20,032	19,010	17,854	15,724	15,271
Basic earnings per share	0.27	0.27	0.27	0.21	0.21
Diluted earnings per share	0.27	0.27	0.26	0.20	0.21

Non-GAAP Revenues by Geographic Breakdown

U.S. dollars in thousands

	<u>Q4 2020</u>	<u>Q3 2020</u>	<u>Q2 2020</u>	<u>Q1 2020</u>	<u>Q4 2019</u>
North America	47,303	49,979	46,610	44,567	41,787
Europe	49,225	42,394	41,030	40,232	37,504
Rest of the world	6,408	5,595	5,423	5,735	7,424
Total	102,936	97,968	93,063	90,534	86,715

Adjusted Free Cash-Flow

U.S. dollars in thousands

	<u>Q4 2020</u>	<u>Q3 2020</u>	<u>Q2 2020</u>	<u>Q1 2020</u>	<u>Q4 2019</u>
Cash-flow from operating activities	21,030	16,705	14,761	5,759	21,429
Increase in capitalized software development costs	(1,604)	(1,506)	(1,251)	(1,437)	(1,162)
Capital expenditures	(725)	(963)	(393)	(552)	(2,456)
Free cash-flow	18,701	14,236	13,117	3,770	17,811
Cash payments attributed to acquisition-related costs(*) (**)	2,363	242	1,562	737	200
Adjusted free cash-flow	21,064	14,478	14,679	4,507	18,011

(*) Included in cash-flow from operating activities

(**) Acquisition-related payments pertain to payments on behalf of M&A agreements related to future performance targets and retention criteria, as well as third-party services, such as, tax, accounting and legal rendered until the acquisition date.

Adjusted EBITDA Calculation

U.S. dollars in thousands

	Three months ended		Year ended	
	December 31,		December 31,	
	2020	2019	2020	2019
GAAP operating profit	10,225	10,223	45,003	37,869
<u>Non-GAAP adjustments:</u>				
Valuation adjustment on acquired deferred revenue	1,275	-	1,598	-
Amortization of capitalized software	1,931	1,499	6,558	5,668
Amortization of other intangible assets	3,669	2,533	12,127	10,000
Capitalization of software development	(1,604)	(1,162)	(5,798)	(5,665)
Stock-based compensation	1,240	282	3,987	1,405
Compensation related to acquisition and acquisition-related costs	1,930	970	4,447	2,929
Non-GAAP operating profit	18,666	14,345	67,922	52,206
Depreciation	1,366	926	4,698	3,470
Adjusted EBITDA	20,032	15,271	72,620	55,676

SAPIENS INTERNATIONAL CORPORATION N.V. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2020 (unaudited)	December 31, 2019 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	152,561	66,295
Short-term bank deposit	30,000	-
Trade receivables, net and unbilled receivables	65,409	50,221
Investment in restricted deposit	-	22,890
Other receivables and prepaid expenses	19,388	7,817
Total current assets	<u>267,358</u>	<u>147,223</u>
LONG-TERM ASSETS		
Property and equipment, net	16,970	16,601
Severance pay fund	6,582	5,106
Goodwill and intangible assets, net	363,597	228,691
Operating lease right-of-use assets	54,390	49,539
Other long-term assets	5,264	5,261
Total long-term assets	<u>446,803</u>	<u>305,198</u>
TOTAL ASSETS	<u>714,161</u>	<u>452,421</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade payables	5,389	5,107
Current maturities of Series B Debentures	19,796	9,898
Accrued expenses and other liabilities	75,119	60,574
Current maturities of operating lease liabilities	9,924	8,312
Deferred revenue	34,548	21,021
Total current liabilities	<u>144,776</u>	<u>104,912</u>
LONG-TERM LIABILITIES		
Series B Debentures, net of current maturities	98,676	58,850
Deferred tax liabilities	16,010	5,082
Other long-term liabilities	12,129	8,321
Long-term operating lease liabilities	48,773	43,394
Accrued severance pay	9,586	6,364
Total long-term liabilities	<u>185,174</u>	<u>122,011</u>
REDEEMABLE NON-CONTROLLING INTEREST	<u>517</u>	<u>-</u>
EQUITY	<u>383,694</u>	<u>225,498</u>
TOTAL LIABILITIES AND EQUITY	<u>714,161</u>	<u>452,421</u>

SAPIENS INTERNATIONAL CORPORATION N.V. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOW

U.S. dollars in thousands

**For the twelve months ended
December 31,**

	2020	2019
	(unaudited)	
Cash flows from operating activities:		
Net income	34,157	26,491
Reconciliation of net income to net cash provided by operating activities:		
Impairment of right of use asset	351	-
Depreciation and amortization	23,383	19,138
Accretion of discount on Series B Debentures	134	171
Capital loss (gain) from sale of property and equipment	44	(40)
Stock-based compensation related to options issued to employees	3,987	1,405
Net changes in operating assets and liabilities, net of amount acquired:		
Trade receivables, net and unbilled receivables	(5,168)	10,514
Deferred tax assets, net	(16)	(6,441)
Other operating assets	(2,049)	6,726
Trade payables	(1,344)	(1,476)
Other operating liabilities	1,435	6,667
Deferred revenues	2,992	2,747
Accrued severance pay, net	349	255
Net cash provided by operating activities	<u>58,255</u>	<u>66,157</u>
Cash flows from investing activities:		
Purchase of property and equipment	(2,633)	(11,474)
Investment in deposit	(30,397)	(1,119)
Proceeds from sale of property and equipment	12	834
Proceeds from (investment in) restricted deposit used for completed acquisition	22,890	(22,890)
Payments for business acquisitions, net of cash acquired	(95,866)	(1,554)
Capitalized software development costs	(5,798)	(5,665)
Acquisition of intellectual property	(2,810)	-
Net cash used in investing activities	<u>(114,602)</u>	<u>(41,868)</u>
Cash flows from financing activities:		
Proceeds from employee stock options exercised	5,050	780
Distribution of dividend	(7,044)	(11,009)
Repayment of Series B Debenture	(9,898)	(9,898)
Proceeds from issuance of Series B Debentures	60,346	-
Receipt of short-term loan	20,000	-
Repayment of loan	(20,000)	(4)
Payment of contingent considerations	(538)	(374)
Acquisition of minority interests	(147)	-
Dividend to non-controlling interest	-	(149)
Repayment of loan of acquired subsidiary	(13,186)	-
Proceeds from issuance of ordinary shares, net of issuance expenses	<u>108,737</u>	<u>-</u>

Net cash provided by (used in) financing activities	143,320	(20,654)
Effect of exchange rate changes on cash and cash equivalents	(707)	(1,968)
Increase in cash and cash equivalents	86,266	1,667
Cash and cash equivalents at the beginning of period	66,295	64,628
Cash and cash equivalents at the end of period	152,561	66,295

Debentures Covenants

As of December 31, 2020, Sapiens was in compliance with all of its financial covenants under the indenture for the Series B Debentures, based on having achieved the following in its consolidated financial results:

Covenant 1

- Target shareholders' equity (excluding minority interest): above \$120 million.
- Actual shareholders' equity (excluding minority interest) equal to \$382 million.

Covenant 2

- Target ratio of net financial indebtedness to net capitalization (in each case, as defined under the indenture for the Company's Series B Debentures) below 65%.
- Actual ratio of net financial indebtedness to net capitalization equal to (9.75)%.

Covenant 3

- Target ratio of net financial indebtedness to EBITDA (accumulated calculation for the four last quarters) is below 5.5.
- Actual ratio of net financial indebtedness to EBITDA (accumulated calculation for the four last quarters) is equal to (0.47).