

Convenience translation
In any case of inconsistency, the immediate report in Hebrew shall prevail

Discount Investment Corporation Ltd,

Immediate report dated July 16, 2020 - reference number: 2020-01-075951

Subject: Elron – Investment Agreements and Option for the Sale of CartiHeal

Discount Investment Corporation Ltd. ("**The Company**") updates that Elron Electronic Industries Ltd. ("**Elron**") reported on 16.7.2020 on the signing of binding agreements between CartiHeal (2009) Ltd. (a company in which Elron has a holding of approximately 27%) ("**CartiHeal**"), and CartiHeal's shareholders include Elron, with Bioventus LLC (an international company that manufactures medical devices, "**Bioventus**"), which is an existing shareholder in CartiHeal, within the framework of which it has been arranged as follows:

The transaction:

- An investment by Bioventus in CartiHeal in an amount of USD 15 – 20 million, in accordance with a value of USD 180 million before the money. USD 15 million out of this amount will be invested immediately ("**The Investment**").
- An exclusive option for Bioventus to acquire 100% of the shares in CarthiHeal ("**The Purchase Option**").
- A put option for CartiHeal to execute a sale of 100% of its share capital to Bioventus ("**The Sale Option**").

The purchase option is exercisable as from the time of the investment. The sale option will be exercisable subject to the success of the pivotal clinical trial, which includes success in certain secondary trial targets, and subject to the obtaining of FDA approval for CarthiHeal's Agili-C device, which accords fully with the success in the trial – see also "crucial terms" in this report.

The purchase option and the sale option will expire 45 days after the obtaining of the FDA's approval and the compliance with generally accepted closing terms.

Elron mentioned in its report that its holding in CarthiHeal after the investment has been reduced from approximately 27% to approximately 25% on a fully diluted basis.

The consideration:

Elron mentioned in its report that in the event of the exercise of the purchase option or the sale option, its expected share in the overall consideration from the sale of CarthiHeal will amount to an overall sum of approximately USD 126 – 129 million, which is comprised of (1) USD 90 – 92 million (subject to generally accepted adjustments), which is payable at the time of the completion of the purchase (of which an amount of approximately USD 12 million will be deposits in trust for a period of 24 months, primarily in order to collateralize certain indemnification commitments by the selling shareholders towards Bioventus) and (2) USD 36 – 37 million, which will be payable at the time of which the sale of Agili-C and other revenues deriving from the commercialization of CartiHeal's other technologies, will generate revenues of at least USD 100 million within the course of a period of 12 consecutive months ("**The sales target**").

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Elron further mentioned in its report that CarthiHeal is expected to finish the monitoring period in the pivotal clinical trial on the Agili-C device in October 2021 and to publish the final trial results by the end of 2021. Shortly afterwards, and insofar as the result of the pivotal trial will show success, CarthiHeal is expected to submit an application to the FDA for marketing approval for the product in the United States. Receipt of marketing approval from the FDA, if it is received, is a process that is expected to take approximately one year from the time of the submission of the application.

Bioventus will be entitled to cancel the purchase option and the sale option up to 30 days after CarthiHeal receives the statistical report in relation to the final results of the pivotal clinical trial on the Agili-C device ("**The time of the end of the cancellation period**"), subject to a payment of USD 30 million to CarthiHeal.

If by the end of the cancellation period Bioventus does not announce that it wishes to cancel the purchase option and the sale option, it will deposit an amount of USD 50 million in trust in order to collateralize the exercise of the purchase option and the sale option.

If Bioventus does not complete the purchase of CarthiHeal after the exercise of the purchase option or the sale option, CarthiHeal will be entitled to the USD 50 million that have been deposited in trust, in addition to the forfeiture of all of Bioventus' shares in CarthiHeal.

Crucial terms:

Elron mentioned in its report, that in addition to the terms that have been detailed above, the exercise of the purchase option or the sale option and as a result of this the purchase of CarthiHeal, are subject, inter alia, to generally accepted closing terms and also the receipt of certain regulatory approvals, approvals by the parties' bodies, and other approvals from third parties.

The exercise of the sale option is also subject to the success of the clinical trial, which is defined as the statistical supremacy of the Agili-C implant over the procedures that are customary today, in the measurement of the change after 24 months in the KOOS rating (self-reporting by patients on pain indices, symptoms, quality of life, day to day activities and sporting activity) in the main clinical target among the trial populations; in the secondary clinical target in the sub-population of patients with light or medium levels of osteoarthritis (Kellgren – Lawrence 2 – 3), and the secondary clinical target in the sub-population of patients with a lesion with an overall size of 3 square centimeter or more.

In addition, Elron mentioned in its report that there is no certainty regarding the completion of the exercise of the option or the put option and the timing thereof.

Elron clarifies in its report, that the forecast data and the assessments that are included in its report are forward looking information, as defined in the Securities Law, 1968, which is based on Elron and CarthiHeal's assessments at this time in relation to information relating to future events, the occurrence of which is not certain and which is not under Elron and CarthiHeal's exclusive control, primarily the crucial terms, the compliance with which is dependent upon parties to transactions and other factors that may lead to a significantly different result or to the non-completion of transactions pursuant to the options.

It should be mentioned that Elron has a holding of 25% in CarthiHeal (at full dilution, after the said investment) and the Company has a holding of approximately 61% in Elron.
