

Analysis of the specific circumstances which led to the ‘Unusual trading activity’ at Nasdaq related to the shares of Nanox Imaging Ltd

Citron Research and Muddy Waters misled Nanox (NASDAQ:NNOX) investors to gain their short sell profit

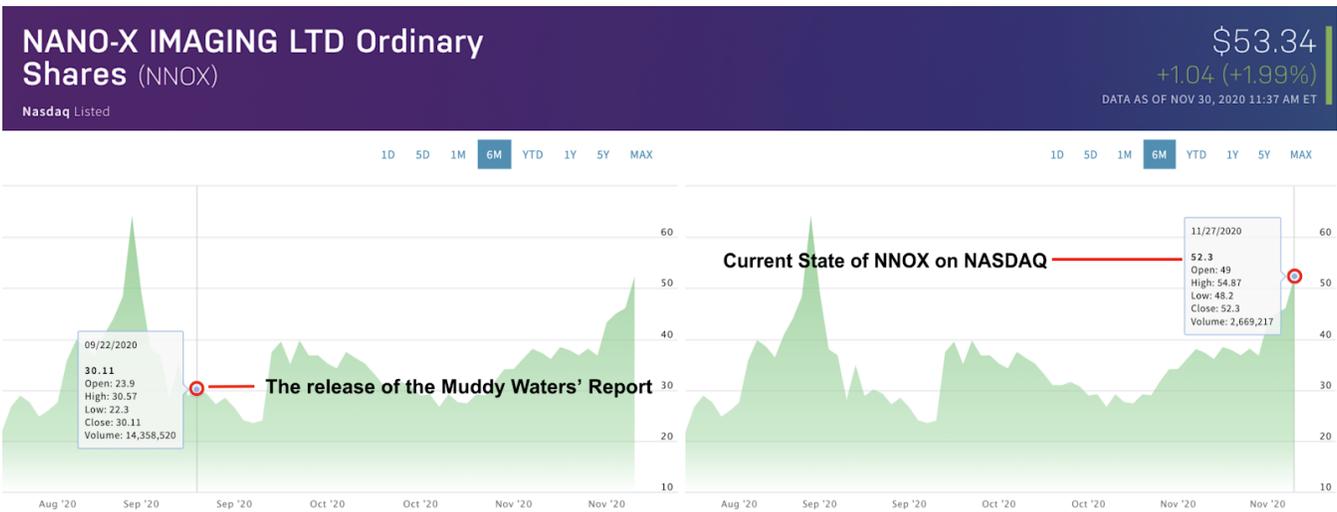
Deconstructing a web of misdirection performed under the pretense of financial ‘research’.

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In August 2020, a company in possession of disruptive technology within the medical device sector, Nanox Imaging Ltd. (NNOX), held a successful IPO on the NASDAQ exchange. Subsequently, in September 2020, two investment research firms known for their investigative reports into allegedly overvalued or fraudulent companies (specializing in advising investors on opportunities for short selling, AKA shorting overvalued stocks), Citron Research and Muddy Waters Research, released two “Short Sellers Reports” that alleged various forms of misconduct surrounding the Nanox company.

Upon analysis, it is clear that the Short Sellers Reports produced by the investment research companies were part of an orchestrated media attack aiming to promote short-sale-related capital gains by artificially lowering the share price of Nanox. As can be seen in the NASDAQ images below, this planned attack was successful. The share price of NNOX was favourably high prior to the release of the reports in the beginning of September 2020, and dropped significantly upon their release by Citron and Muddy Waters, and then again increased and stabilized in the end of November 2020. Furthermore, the fact that the Citron report has recently been moved into their archive provides some ancillary indication that this was, in fact, a planned short selling action.



Source: <https://www.nasdaq.com/market-activity/stocks/nnox>

This specific example is indicative of a larger issue within the realm of publicly traded companies. While superficially promoting real or potential performance of a publicly traded company (AKA hyping stocks) for speculative gains is an illegal act that have brought many to justice and incarceration, **the opposite action (of artificially driving stock prices down via a purposeful and misleading discreditation of a company for speculative short-sale gains) has unfortunately not yet not been outlawed by regulators.**

Despite the fact that from a formal point of view this phenomenon of negative hype for the purpose of short selling stocks is technically and formally legal, Deep Knowledge Analytics considers it to be a **straightforward example of unethical business tactics.** As a DeepTech-focused analytical agency, we have a vested interest in pragmatic and unbiased analysis of such cases in sectors with high levels of technological and scientific innovation, and in Healthcare in particular.

We are of course in complete support of practices that help to prevent legitimately fraudulent and dangerous industry players like Theranos from impacting the industry, but we are also very aware of the **damage that superficial and unvalidated cases of company defamation can have on the industry as a whole,** and on overall investor sentiment and perception. **Acts like these may cause damage to the entire DeepTech investment landscape in the USA,** and it needs to be heavily deterred for the betterment of the industry as a whole.

Thus, given Deep Knowledge Analytics' vested interest in keeping track of major trends in DeepTech, Frontier Technologies and innovations in healthcare and related fields, we decided to perform a **thorough independent investigation** into this occurrence, and an analysis of the **actual validity of the statements** made by the Short Sellers Reports produced by Citron Research and Muddy Waters Research, as well as a secondary analysis on the technological and commercial prospects of Nanox itself, independent of the specific circumstances surrounding the drop and eventual restoration of its public share price, and a third brief analysis on the history and current standing of the investment research firms who released the Short Sellers Reports - Citron Research and Muddy Waters Research.

If we were to follow the logic of these Short Sellers Reports to their fullest extent, it could be concluded that all innovative, DeepTech-driven companies working on something fundamentally new and disruptive are vulnerable to accusations of fraud. DeepTech sectors are fundamentally characterized by high rates of technological innovation and by attempts to develop and release technologies without precedent which do not yet actually exist.

Therefore, we feel compelled to perform a thorough analysis for the case of Nanox in particular, to better validate our presumption that ***DeepTech-driven companies deserve additional support and protection against false accusations for the benefit of technological progress, and that specific forms of technological due diligence (in addition to standard financial and accounting due diligence) should become standard practices in DeepTech sectors prior to IPOs, in order to offer better systemic protection for investors against truly fraudulent companies mimicking associations with DeepTech innovation, but at the same time to provide better protection for legitimate DeepTech companies that can provide actual evidence of technological innovation against aggressive financial players.***

The results of our investigation found the claims made by the Short Sellers Reports to be misleading and falsifiable, demonstrating a lack of consistent and reputable analytical research and reporting methodologies and best practices. The full results of our investigation can be found in the following three documents:

Full Analysis: www.analytics.dkv.global/nanox/specific-circumstances.pdf

Nanox Imaging Technological Analysis:
www.analytics.dkv.global/nanox/company-analysis-and-perspectives.pdf

Information Summary about Short Sellers - Citron Research and Muddy Waters:
www.analytics.dkv.global/nanox/short-sellers-information-summary.pdf

The complete scope of our analysis into Nanox, Citron Research and Muddy Waters Research can be found here: www.dka.global/nanox-imaging

The step by step results of our investigation into the validity of claims made in Citron and Muddy Waters' Short Seller Reports are provided in detail on the following pages.

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I. Factual misrepresentation of Nanox business statement and claims

The Citron and Muddy Waters Short Sellers Reports present misleading and factually incorrect statements regarding Nanox's business model and the nature of their product, which was used as justification for inaccurate claims that the company has not sufficiently validated the key functionalities (i.e. efficacy) relating to their product. While technical in nature, a more thorough analysis of the nature of the company's device, especially as it pertains to the company's business model, is worthwhile in demonstrating the factual inaccuracies presented in the Short Sellers Reports, and the dependency of several other of claims made in the Short Sellers Reports on those initial misrepresentations being true.

On the first page of its report, Citron Research states the following (emphasis added):

*Citron: "Since its recent IPO, Nanox Imaging (NNOX) has become a market darling based on the claim that they have created a **better medical imaging device** that is low cost, portable, and will forever change the way diagnostics are done globally as this new innovative technology will soon replace the legacy x-ray market."*

We were unable to find any sources demonstrating that **Nanox claimed to have "created a better medical imaging device" as stated by Citron. Nanox never claimed their imaging to be better in any way, and their core innovation is not in the imaging device in the first place.**

In other words, the initial "Device vs. Device" argument used in the Short Sellers Reports cannot be justified with secondary external sources.

Nanox's invention and core patents relate to the development of a **novel x-ray source**, essentially the **tube** emitting the x-rays (similar in nature to an X-ray lightbulb), and more specifically the tube's **cathode** or the electron emitter that enables the production of X-rays within the tube.

The Nanox x-ray 'lightbulb', pictured on the right, is seen as it is presented in the Nanox website under the "Our Technology" section.



From Nanox website, 40mm Ceramic digital X-ray Tube and 25mm-35mm diameter tube representing the Nanox.SOURCE core technology

In layman terms, Nanox built a **digital** x-ray source in a world of medical imaging that uses **analog** tubes. Analog tubes technology has not seen significant innovation in the past 120 years, and Nanox introduced the equivalent of a LED-based lighting technology as a more efficient and economical alternative to Edison's filament light bulb, which has served as the standard since its invention.

This x-ray 'lightbulb' is claimed by Nanox to be an order of magnitude cheaper and more energy efficient, thus enabling the manufacturing of significantly lower cost imaging systems. Nanox's business model lies in the ability to provide **affordability and accessibility** to medical imaging by **increasing the number of devices in the world rather than replacing legacy devices.**

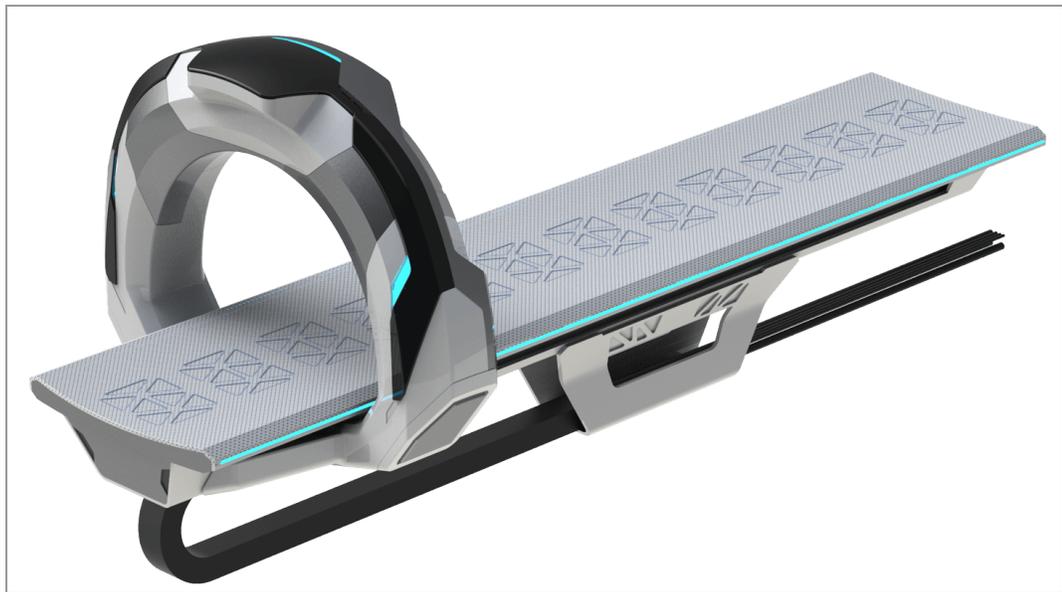
The Short Sellers Reports factually misrepresented Nanox's device claims and core business model by positioning Nanox to be a device manufacturer



competing against large and well-established medical device manufacturers on the basis of offering better device and imaging quality, which is not the case, and contrary to numerous statements found on their website and in their prospectus.



Nanox.ARC Model 1.0



Nanox.ARC Model 1.5

Nanox states their business clearly In their F1 prospectus filing to the SEC (emphasis added):

*Page 1: "As a first step to producing a new class of **affordable medical imaging systems**, we **have focused on identifying and developing a novel X-ray source**. Our X-ray source is based on a novel digital microelectromechanical system ("MEMs") semiconductor cathode **that we believe can achieve the same functionalities as legacy X-ray analog cathodes, while allowing for lower-cost production than existing medical imaging systems**. We developed this technology over eight years to reach commercial applicability"*

The Nanox imaging device, namely the Nanox.ARC, was designed to function as a **housing mechanism for the Nanox Source** and **not** a device that aims to compete with legacy x-ray systems in order to replace them as alleged by Citron.

Nanox does not aim to compete with the existing imaging vendors. On the contrary, they formally state their intent to license their x-ray source to the likes of GE, Siemens, Philips and others, which completely negates the Citron proposition that Nanox claims to “replace the x-ray market”.

As stated in Nanox’s SEC filings:

Several large companies, such as General Electric, Siemens, Philips, Hologic, Varian, Fuji, Toshiba and Hitachi currently dominate the medical imaging market. High regulatory, distribution, manufacturing and service-related long-term contractual costs represent significant barriers to entry for any new player. We expect that the existing market participants will remain key players in the future and we aim to form alliances with several of these leading market participants, including through licensing.¹

This is made evident in the prospectus (emphasis added):

*Page 1: “This novel digital X-ray source is the basis of core technology in the Nanox.ARC, the imaging system we are developing, and **we believe it also has the potential to replace the legacy X-ray source in other existing imaging systems.**”*

In short, Nanox’s plan is not to replace other imaging systems, but to replace other x-ray ‘lightbulbs’ **within** existing systems:

*Page 94 in the Nanox Prospectus (emphasis added) : “Several large companies, such as General Electric, Siemens, Philips, Hologic, Varian, Fuji, Toshiba and Hitachi currently dominate the medical imaging market. **We expect that the existing market participants will remain key players in the future and we aim to form alliances with several of these leading market participants, including through licensing.**”*

Citron does not cite or allude to these details in their report, and falsely state that Nanox has made claims of superiority over other market players, whereas in reality Nanox is seeking to innovate a specific component of existing systems, for use by existing system providers, rather than seeking to compete outright with existing market players.

By moving the narrative away from the Nanox x-ray source being the Nanox core innovation (as stated clearly in the prospectus) Citron and Muddy Waters are misleading investors to believe that Nanox claimed imaging device (i.e., whole-system) superiority, whereas in reality Nanox’s claims lie precisely in innovations to a specific component used in existing systems, as clearly detailed in Page 84 of the Nanox Prospectus.

This specific misrepresentation of facts by the Short Sellers Reports lays the basis for the entire sequence of misleading statements included throughout the Citron and Muddy Waters report, and are dependent on this misleading statement being true to hold water. Once clarified through factual references, it is clear that this initial statement is false, thus negating the validity of the majority of the report’s subsequent arguments and statements.

II. Use of Anonymous and Unverifiable Expert Witnesses

A consistent methodology across both Short Sellers Reports is the use of expert opinion to negate or question Nanox claims regarding its technology, or to provide an insiders’ opinion to the company’s practices and internal workings.

¹ https://www.sec.gov/Archives/edgar/data/1795251/000114036120017084/nt10006151x8_f1.htm

From Muddy Waters Report : “We interviewed five radiologists who were familiar with NNOX’s claims. Not a single one expressed credulity of NNOX.”

The use of expert opinions is a valid approach to any exposé and analytical research reports when the professional opinions of such experts can be validated by professional credentials and reputation within their domain of expertise. However, the reports by both Muddy Waters and Citron use exclusively *anonymous* sources. Every single expert witness included in their reports are introduced under anonymous pseudonyms like Radiologist A, Radiologist B, Radiologist C, D and E, joined by a “Former Employee” of Nanox itself or Nanox partners’ companies. The use of *anonymous* experts completely invalidates the use of expert opinion in the first place by removing the actual factors that would be used to validate their opinions in the first place (i.e., professional titles, the strength of their professional affiliations, and the reputational caliber of the witnesses within their specific professional domains).

⁴ Source: Radiologist E. As an additional point of confirmation, five radiologists to whom we spoke did not believe that the Nanox.ARC is capable of generating CT scans, only rudimentary X-rays (see infra)

⁵ https://www.kyotokagaku.com/en/products_introduction/ph-2b/

⁶ Radiologist D

⁷ Radiologist E

⁸ Radiologist E

⁹ Radiologists A and D

¹⁰ Radiologist D

¹¹ Radiologist A

The ‘Sources’ footnote from the Nanox Muddy Waters report

The Muddy Waters report states (emphasis added):

*“Note that **every radiologist** with whom we spoke stated that the ARC is not capable of CT scans, **despite the company’s claims**;...”*

Once again, we have failed to find any sources indicating that Nanox claimed that its imaging device, Nanox.ARC, was capable of generating CT scans, as it is designed to function as a **housing mechanism for the Nanox Source** and **not** a device that aims to compete with legacy x-ray systems in order to replace them, and the Short Sellers reports themselves fail to provide any sources proving this claim to have been made..

III. Misrepresentation of the Nanox clinical data and imaging status

Both of the Short Sellers Reports make the non-factual and easily falsifiable claim that Nanox’s core product is intended to serve as a medical imaging device in and of itself, and then attempt to discredit this claim by alleging a lack of clinical evidence comparing their device with other medical imaging devices, such as CT scanners.

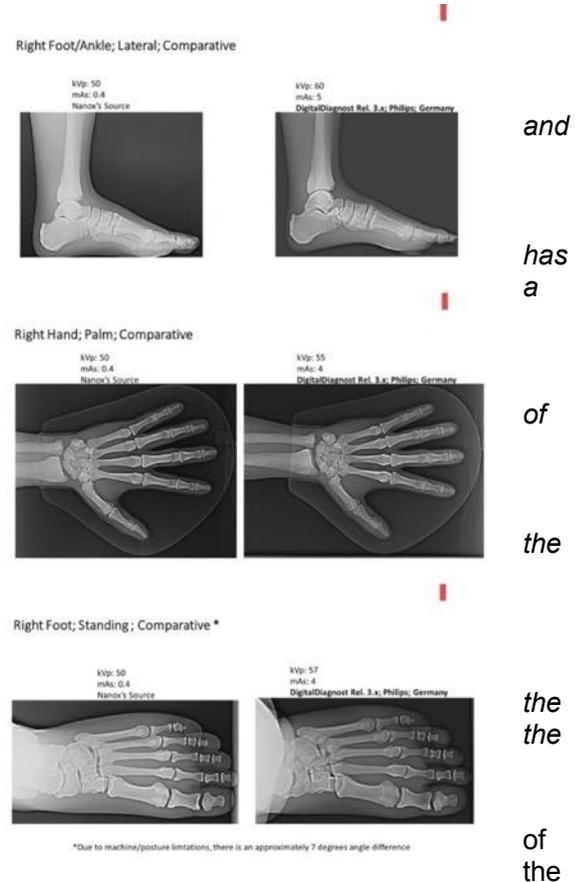
Citron: “NNOX has never published any data showing their machine’s images compared to images from a standard CT scanner.”

As alluded to above, the company’s product is a single, more cost effective and efficient component intended for use in existing medical imaging devices. As such, the company’s device cannot show imaging data because it is not an imaging device in and of itself. Nanox does not position itself in competition with existing medical systems such as CT scanners. The innovations claimed by their product relate exclusively

to its cost effectiveness and efficiency as a single component of other medical imaging systems, not to the quality of the imaging of medical imaging devices using their product. In this respect, Citron's claim for comparative images is both nonfactual and, more importantly, irrelevant, as Nanox is neither required nor expected to provide any images in clinical comparison to other systems.

As an inventor of a novel **x-ray source**, Nanox are required only to show that there is an image at all and it is equivalent to any other x-ray image of legacy devices. It is equivalent to demonstrating that the LED light produces lighting that is equivalent in function to legacy lightbulbs. The FDA requires Nanox and other x-ray source manufacturers to validate the properties of the x-ray radiation produced by their devices, and its safety, rather than the clinical quality of its images:

A 510(k) is a premarket submission made to FDA to demonstrate that the device to be marketed is as safe and effective, that is, substantially equivalent, to a legally marketed device (section 513(i)(1)(A) FD&C Act). Submitters must compare their device to one or more similar legally marketed devices and make support their substantial equivalence claims. A legally marketed device is a device that was legally marketed prior to May 28, 1976 (preamendments device), or a device which been reclassified from Class III to Class II or I, device which has been found SE through the 510(k) process, or a device that was granted marketing authorization via the De Novo classification process under section 513(f)(2) the FD&C Act that is not exempt from premarket notification requirements. The legally marketed device(s) to which equivalence is drawn is commonly known as "predicate." Although devices recently cleared under 510(k) are often selected as the predicate to which equivalence is claimed, any legally marketed device may be used as a predicate. . Legally marketed also means that predicate cannot be one that is in violation of FD&C Act.²



The **Clinical** images referred to by Citron are a result of the *functionality* of the imaging **device** that is housing x-ray source, and not the function of the x-ray source itself.

Nanox does not claim to operate or compete on the device side and are very consistent to demonstrate comparative measure between **sources** and not **systems**. In the F1 Prospectus filed with the SEC, page 84, [Nanox states](#) (emphasis added):

*"The comparisons below show the **X-ray images taken by our novel X-ray source (single tube) that is expected to be used in the Nanox.ARC and a commercial alternative, the DigitalDiagnost Rel. 3.x by Philips, Germany, each at the same source-to-image distance (100 cm), at the same source-detector angle (90°) and with the same detector.**"*

Nanox.Source images (seen here on the right) have been added to the prospectus (Page 84 in Nanox F1 filing) to demonstrate that Nanox x-ray technology, while novel in the way it generates x-rays, is producing

² <https://www.fda.gov/medical-devices/premarket-submissions/premarket-notification-510k>

the x-ray radiation capable of medical imaging **similar to legacy sources** produced by vendors such as Philips.

IV. Misrepresentation of industry facts

The Citron report attempts to call into question Nanox's integrity and business viability on the basis of the size of the Nanox R&D team and operation. In the words of Andrew Left of Citron Research:

"To put the scale of this lie into perspective, just look at the medical imaging industry. Medical imaging is a highly competitive market with definitive leaders pushing the envelope namely: GE, Siemens, Philips, and Fuji. The only way to create a better mousetrap would be through years of R&D..."

...NNOX's entire company has just 21 employees with 15 in R&D. Below is a photo of NNOX's R&D lab, which pales in comparison to that of GE...

... GE's biomedical x-ray and CT imaging lab is supported by over 300K square feet of laboratory space with 1,000+ staff scientists, engineers, and technicians..."

As of 2019, many of the largest pharmaceutical firms spend nearly 20% on R&D. Of the 20 largest R&D spending industries in the world, the pharmaceutical industry makes up nearly half the list. As of June 30, 2019, AstraZeneca (AZN) blazed the path by spending 25.63% of revenues on research and development. Holding strong, Eli Lilly (LLY) spent 22.38% of its revenues on R&D as of March 31, 2019. Roche Holding AG (RHHBY) wasn't far behind with 21.29% spent on R&D as of June 30, 2019. Falling just below 20%, multinational biotechnology companies Biogen (BIIB) and Merck spent 15.41% as of June 30, 2019, and 19.70% as of March 31, 2019, respectively. Pfizer (PFE) and GlaxoSmithKline (GSK) are closer to the 15% level. On the lower end of the spectrum, Abbott Laboratories (ABT) dedicates about 7% of revenues to R&D spending as of June 30, 2019. A quick survey of other industries clearly shows how much most of them are outspent in R&D by pharmaceutical companies. The overall average spending on R&D by industries engaged in developing new products is a mere 1.3% of sales revenues. The chemicals sector, one of the larger R&D sectors, spends an average of 2 to 3%. Aerospace and defense firms, although they do a great deal of research and development work, only dedicate about 4 to 5% of revenues to R&D spending. Internet companies are closer to pharmaceutical firms in R&D spending, with both Microsoft and Google spending approximately 12% of sales revenues on R&D.³

As history and standard industry practices show, the main decisive factor that drives innovation in medical imaging is not the size of a company's R&D staff, but the specific and distinctive features of the technology itself, which is the core reason that startups can disrupt lagrange industries and gain market share in sectors already dominated by large and very well-funded corporations in the first place.

Simply put, it does not take a 1,000+ staff to build a medical imaging technology or device as claimed by Citron. An Israeli company named Arineta (www.arineta.com) has developed, built, and is manufacturing cardiac CT systems with a staff of less than 50 people as reported online, and this is just one example.

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<https://www.investopedia.com/ask/answers/060115/how-much-drug-companys-spending-allocated-research-and-development-average.asp#:~:text=Average%20Industrial%20Research%20and%20Development%20Spending&text=The%20overall%20average%20spending%20on,average%20of%202%20to%203%25.>



CardioGraphe CT by Arineta (image is taken from Arineta.com)

A simple internet search shows that there are many other companies worldwide building medical imaging devices with a total of 20-50 employees across the full scope of their operation, including R&D, Sales and Marketing, Regulation management, and other departments.

Nanox has research and manufacturing facilities in the university of Tokyo in Japan, and a MEMs manufacturing facility with Tube production in South Korea.

This is coupled with the Israeli R&D center and their partnership with Foxconn Taiwan who are renown as one of the largest manufacturers globally with over 1 million employees worldwide.

This is hardly a ‘small and insignificant operation’ as Citron claims. It is a global enterprise of manufacturing and development led by some of the largest players in the world. **Citron fails to make any mention of these facts that are openly available across the prospectus, the web and Nanox presentations.**

*Citron Research (emphasis in origin): “What you are about to read is accurate, and no we did not miss a 0. Since its founding in 2018, **NNOX claims that it has disrupted the medical imaging market with a total R&D spend of \$7.5 million.**”*

This is a further example of outright misrepresentation of data provided in the prospectus, which states on the F-8 section of the formal filing (emphasis added):

*“...the Company has experienced net losses and negative cash flows from operations since its inception and has relied on its ability to **fund its operations primarily through equity financings.** As of December 31, 2019 and 2018, the Company had an accumulated deficit **of \$40.6 million and \$18 million.**”*

These figures represent a total of \$58.6 million in Nanox cash deficits that were mainly spent on R&D in the period of 2018 -2019. Moreover, in the Nanox prospectus, Nanox specifically discloses that its specific innovations in MEMs and cold cathode technology build upon R&D performed by Sony Japan in the early 2000’s. As stated in the F1 filing (emphasis added)⁴:

⁴ <https://sec.report/Document/0001140361-20-018983/>

Page 82 of the F-1 filing : **“Our technology has its roots in field emission display (“FED”) technology. FED technology was originally developed by Sony with other technology partners, for television screens and monitors, offering a novel way of lighting screen pixels compared to traditional cathode-ray tubes that were based on a one-source electron gun beam.**

The field emission display innovation used multiple nano-scale electron guns to achieve a much higher quality image with significantly reduced motion blur effects. In 2009, after having invested substantial resources in the development of this technology for over a decade including through a joint venture called Field Emission Technologies, Inc. (“FET”), Sony ceased development of the project.

In 2009, FET dissolved and transferred certain assets to FET Japan Inc. (“FETJ”). Scientists on our team, who worked at FETJ, applied their expertise to develop non-display related applications, including our X-ray source technology. In 2011, our predecessor company acquired certain non-display related know-how from FETJ and certain members of the FETJ technical team joined us. “

Nanox’s MEMs chip was developed on top of an existing FED technology that Sony with other American partners invested over a decade in developing. What little information could be found online from 2002 shows at least \$600 million⁵ were invested in FED before Nanox’s MBO acquisition took place in 2011. This means that Nanox technology is the result of close to \$700 million dollars investment over a period of 15 years and not the \$7.5 million alluded to fraudulently by Citron and Muddy Waters. This fact serves both to invalidate a large portion of Citron’s claims, and to provide solid justification for Nanox’s valuation.

Citron Research and Muddy Waters also attempt to discredit a specific claim made in the Nanox prospectus relating to a shortage in medical imaging and diagnostics services in the world, which can in fact be validated with a simple internet search, and to frame that claim as something formulated by Nanox itself, whereas in reality it originates from a highly reputable third-party source.

The reports claim that the global market need as cited by Nanox was greatly overblown and fraudulent. They make these claims based on an commentary by an **anonymous** radiology expert who states (emphasis and square brackets added):

“They [Nanox] also say that two-thirds of the planet can’t get a CT. That’s hard to believe. They also say the other third has to wait weeks to months. You can get a CT scan right now, anywhere in America in five minutes.”

The statement regarding two thirds of the world population having no access to medical imaging is **not** made by Nanox. It is in fact a quote of the World Health Organization (www.WHO.int) in collaboration with the Pan American Health Organization (www.PAHO.org) who have published a series of articles and opinions alerting to this situation since 2012, as seen in the image below:⁶

⁵ Source: c|net Feb. 4th, 2002 - <https://www.cnet.com/news/well-funded-display-developer-downscales/>

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https://www.paho.org/hq/index.php?option=com_content&view=article&id=7410:2012-dia-radiografia-dos-tercios-poblacion-mundial-no-tiene-acceso-diagnostico-imagen&Itemid=1926&lang=en

The screenshot shows the PAHO website header with the PAHO logo and navigation links. The main content area features a news article titled "World Radiography Day: Two-Thirds of the World's Population has no Access to Diagnostic Imaging". The article text reads: "Between 70% and 80% of diagnostic problems can be resolved through basic use of X-rays and/or ultrasound examinations; PAHO/WHO works with countries to strengthen radiological services in the Region". Below this, it states: "Washington DC, 7 November 2012 (PAHO/WHO).- The use of X-rays and other physical waves such as ultrasound can resolve between 70% and 80% of diagnostic problems, but nearly two-thirds of the world's population has no access to diagnostic imaging. On World Radiography Day, which takes place on 8 November, the Pan American Health Organization/World Health Organization (PAHO/WHO) will advocate for improving adequate access to and quality of radiological services in Latin America and the Caribbean. The main purpose of the PAHO/WHO Radiological Health Program, created in 1960, is to advise on all radiological health fields with emphasis on policy and program guidance, to strengthen processes for the assessment, adoption, and use of appropriate health technologies for diagnostic imaging and radiation therapy services, in addition to providing technical cooperation to ensure radiation protection of the public, workers, patients, and the environment. PAHO/WHO also assists the Region's countries in developing well-trained professionals and implementing quality control programs."

The WHO and PAHO opinion is the exact opposite to Citron and Muddy Waters' anonymous expert statement when they clearly state in the same article:

"...nearly two-thirds of the world's population has no access to diagnostic imaging...."

Further down the page, Pablo Jiménez, PAHO/WHO Regional Adviser on Radiology and Radiation Protection further elaborates:

"Access to diagnostic imaging services has a great impact on public health and can potentially reduce, for example, infant mortality or increase detection of some types of cancer at an early stage. Unfortunately, current shortages of human resources and obsolete or broken equipment are making it increasingly difficult to provide adequate access and quality in our region"⁷

This point made by Pablo Jiménez (PAHO/WHO Regional Adviser on Radiology and Radiation Protection) is extremely important, as this is the exact problem that Nanox aims to solve, as demonstrated in numerous locations on the Nanox website, and in the beginning of their investor presentations. Nanox aims to address both the shortage of imaging systems as well as radiologists to read the scans of these systems, which results in weeks and months of wait time for diagnostics that may become the balance between life and death

Furthermore, even without reference to external third-party sources like the WHO and PAHO, a simple Google search would also have revealed evidence contrary to the claims by Citron's anonymous radiologist who claimed that it takes not days or weeks but minutes to obtain the results of medical imaging scans.

United Kingdom:

The NHS report said the latest figures showed an "increasing trend in the number of patients waiting longer than six weeks over the past two years".

⁷

https://www.paho.org/hq/index.php?option=com_content&view=article&id=7410:2012-dia-radiografia-dos-tercios-poblacion-mundial-no-tiene-acceso-diagnostico-imagen&Itemid=1926&lang=en

It said a total of 87,482 people were waiting for one of the eight diagnostic tests at 30 June - of whom 18,644 had been waiting longer than six weeks.⁸

Canada:

The waiting time in this segment increased from 8.5 weeks in 2015 to 9.4 weeks this year. This wait time is 155% longer than in 1993, when it was 3.7 weeks in 2016. The shortest waits for specialist consultations are in Ontario (7.2 weeks) while the longest occur in New Brunswick (21.5 weeks).⁹

This amounts to 3.7 weeks (24 days) of wait time for performing a scan in Canada, much longer than the “5 minutes” claimed by Citron’s anonymous radiologist. In Ireland, the Irish Times reports a whopping 12 months or more of wait time for diagnostic results for Computed Tomography (CT) scans for 25,000 people each year¹⁰.



THE IRISH TIMES

Fri, Nov 20, 2020

NEWS

SPORT

BUSINESS

OPINION

LIFE & STYLE

CULTURE

Health > Coronavirus

More than 165,000 patients on waiting lists for ultrasounds, CT scans and MRIs

Over 25,000 patients waiting for diagnostic tests have been on the list for more than 12 months

© Fri, May 10, 2019, 01:00

Source: <https://www.irishtimes.com/news/health/more-than-165-000-patients-on-waiting-lists-for-ultrasounds-ct-scans-and-mris-1.3886949>

Another [report](#) by the World Health Organization sheds light on the medical imaging situation in the developing countries. The report depicts that:

“... many countries in the developing world cannot afford to purchase expensive imaging equipment, and often there is a shortage of trained staff who can use it...”¹¹

In fact, this issue is so significant that the WHO and other international health policy institutes have annual conferences to maintain awareness and promote solutions along the lines of the Nanox vision.

8

<https://www.bbc.com/news/uk-scotland-scotland-politics-45331220#:~:text=The%20six%2Dweek%20standard%20applies,of%20used%20to%20detect%20cancer.&text=The%20NHS%20report%20said%20the,over%20the%20past%20two%20years%22>

⁹ <https://www.fraserinstitute.org/studies/waiting-your-turn-wait-times-for-health-care-in-canada-2016>

10

<https://www.irishtimes.com/news/health/more-than-165-000-patients-on-waiting-lists-for-ultrasounds-ct-scans-and-mris-1.3886949>

¹¹ <https://www.who.int/activities/strengthening-diagnostic-imaging>

The authors of the Short Sellers Reports have clearly read the prospectus, as they have quoted the \$7.5 million figure correctly from it, but they have also deliberately disregarded the other information that was vital to complete the picture of the total investments made. In attempting to invalidate the real and quickly-validatable issue of lack of access to medical imaging, and long waiting periods to obtain test results, despite many easily-obtainable statements and studies performed by numerous reputable third parties, Citron and Muddy Waters' reports attempt to call into question the entire basis for the Nanox business model, and to dismiss a very real market need and opportunity by using a 'rebuttal witness' expert opinion that can be quickly and easily negated by numerous external sources.

V. Misrepresentation of industry practices

In a subsequent section of their report, Citron attempts to call into question Nanox's FDA filing, in which the report authors present fundamental distortions of the Nanox narrative and business model (emphasis added):

*Citron Research : "First it should be noted that NNOX did not even submit a **novel product** for approval but rather they submitted a 510(K) submission...."*

*By submitting a 510(K), **you are saying you have nothing new** and are seeking easy approval as you are just another product that has already been tested."*

As stated previously, the Nanox core technology and innovation is **not** in the device but in the novel digital x-ray source. The FDA main focus is about the impact of any medical technology on the actual patients, e.g., safety, efficacy etc.

In this respect, **as viewed by the FDA**, the Nanox x-ray source is **not a novel technology**. While the method of generating the x-rays is novel, the actual x-rays – the part that impacts the patient – are just that: X-rays. They radiate in the same wavelength and energy levels as any other x-ray. Nanox's product is what is described in the FDA regulations book as a "component" that, by itself, is typically exempt from regulatory review.

Nanox's submission of the 510(k) is accurate. In terms of the impact on patients' exposure to radiation and their safety, the Nanox x-rays are equivalent to the x-rays of other x-ray sources already approved by the FDA for other vendors. As such, The Nanox x-ray source, whether used in the Nanox ARC or by any other medical imaging system, represents an x-ray radiation that is **not novel in any way.**

The claim made by Citron in their Short Sellers Report that "**NNOX did not even submit a novel product** for approval" is fundamentally misleading because there is no regulatory necessity for the company to request FDA approval of Nanox's device as a novel product. This fact can be easily validated by any regulatory consultant in the U.S.

Thus, in effect, a major initial claim made by both Short Sellers Reports is inherently flawed due to a misunderstanding of the nature, purpose and claims of the company's product, and a misunderstanding of the regulatory requirements imposed by the FDA for products of its type. While we can maybe attribute this misrepresentation to lack of regulatory understanding, the next section cannot be attributed to anything but purposeful and irresponsible defamation practices.

VI. Use of misleading information in an attempt to discredit company partners

The reports by Citron and Muddy Waters also presented misleading statements regarding Nanox partnerships.

*From Citron Research (emphasis added) : “NNOX’s commercial agreements may sound nice on the surface, but these appear to be no more than **fake customers**.”*

This statement is quite consistent with the overall strategy used in the Citron and Muddy Waters Short Sellers Reports, which use factually incorrect assumptions as the basis for justifying false certainties dependent upon the facticity of those assumptions for their own validity.

Both Short Sellers Reports assume in their statements that the distribution partners for Nanox are meant to follow legacy medical distributors practices, which, again, is a misrepresentation of the Nanox business model as laid-out in its prospectus and investment materials. The company does not aim to deploy its technology in a traditional manner. Hospitals and primary medical centers are not the Nanox target market. Nanox’s target medical clinic chains that have no resources to buy medical imaging systems at all.

As such, Nanox seeks an entirely different type of partner capable of delivering the company’s products into urgent care units, outpatient clinics and all the other thousands of medical service providers who lack the financial capability to purchase high quality medical imaging in-house. None of the traditional distribution channels have real access to these locations simply because they don’t sell there. Nanox has a unique business model that involves product deployment in mass quantities within countries and therefore must tie itself with distribution partners that have both the financial and political pull that will get Nanox as a service provider into a region.

Furthermore, the Short Sellers Reports also attempt to flatly discredit the validity of several Nanox distributors by representing them as “fake customers”, and by attempting to provide evidence that they are not, in fact, medical device distributors.

Both Short Sellers Reports, for instance, feature alleged (and factually incorrect) photographic “proof” of Golden Vine, the Vietnamese distributor’s alleged place of business:

Citron Report : “Below is a photo of the office of Golden Vine international Company”



Muddy Waters stated about Golden Vine : “However, as much as NNOX might try to make Pepi Liao appear like a medical device entrepreneur, she works in the hotel industry and has little apparent direct connection to the family business that NNOX mentions.”



These are the correct photos of the office location from the right angle and not the way Citron has staged it (images were found online through a simple google search of the office address).

Moreover, the Liao family, that was directly defamed by the reports, is one of the most influential families in Taiwan with strong political and financial ties to Israel and close personal relationships with the founder of Foxconn, Terry Gou. One can find ample information about the family online.

In the below photo, on the right is Mr. **Liao Wan Lung** (廖萬隆), who is the founder and chairman of CB CERATIZIT which is one of the largest tungsten carbide producers in the world with over 16 plants and 50 office branches providing over 70 countries in the world.



The Liao family’s customers include large corporations like Siemens, Foxconn, Samsung, Philips and many more players from the medical field as Tungsten is the prime material for X-ray cathodes and anodes produced by the largest vendors.

The Liao family also owns hotel chains, but the misleading and improper qualification of Ms. Pepi Liao as “a hotel industry worker that has little apparent direct connection to the family business” by the Short Sellers Reports is nothing short of libel. Online information shows Ms. Liao to be a Director of CB Ceratizit Group, which is the main family business and a global conglomerate, as well as the CEO of [Golden Vine](#).

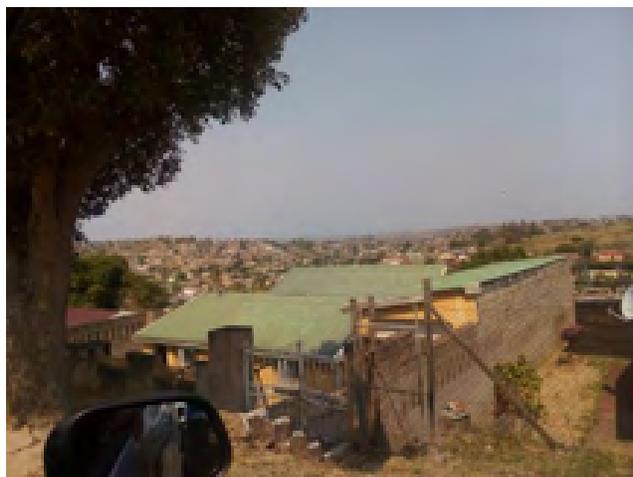


Furthermore, Ms. Liao's father is a close personal friend with Terry Gou (on the left side of the photo hereinabove). Mr. Gou is the legendary founder of Foxconn, who is a contracted manufacturer of Nanox systems (Page 81 in the F-1 prospectus filing to the SEC) as well as a strategic investor in the company.

The Liao family as well as Mr. Gou have strong ties to the Israeli community and politics as seen from the photos here on the right (from left to right: Israel's Prime Minister, Benjamin Netanyahu, Ms. Pepi Liao and Mr. Liao Wan Lung).

Between their medical industry connections, their political strength in Taiwan, and their connections with Foxconn founder and Israeli alliances, it is clear that [Golden Vine and Pepi Liao are valid strategic partners](#) for Nanox for business in Taiwan and other locations in the Far East. These facts are in open access and can be found in the web, and the fact that the Short Sellers Reports exclude them seems to be either a purposeful attempt to mislead the public, or at best an honest but dangerous instance of negligence in the reporting of Citron and Muddy Waters. Either way, it is clear that Citron and Muddy Waters are attempting to present highly subjective statements as validated facts.

Additionally, dramatic and emotionally-charged claims were made by Muddy Waters with regard to Nanox's South African distributor, which included photos (seen below) that allegedly represents what they referred to as a "shady" place of business for Nanox's South African partner, Gold Rush.



From the Muddy Waters NNOX Research

Muddy Waters also claimed to have a hard time finding the correct vendor, but it took our staff just minutes to locate the following information regarding Gold Rush from the S. African Companies and Intellectual Property Commission:



COMPANIES AND INTELLECTUAL PROPERTY COMMISSION
REPUBLIC OF SOUTH AFRICA

Form CoR 14.3 - Registration Certificate

Issue date: 12/02/2016
Print date: 12/02/2016
Customer code: BD001
Tracking number: 932245323

Concerning:
GOLD RUSH TRADING (Pty) Ltd 2016/05098/07

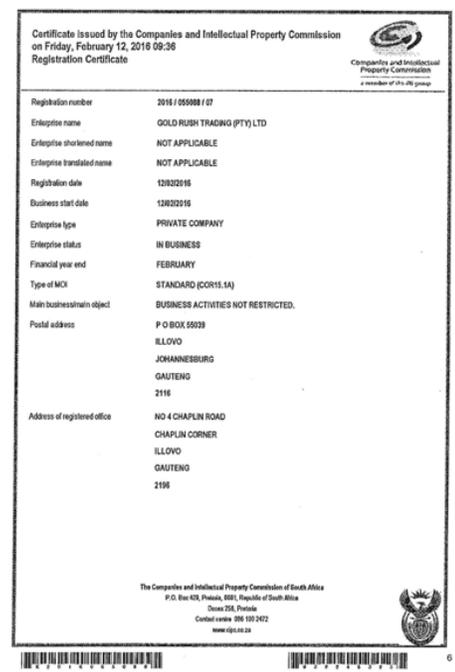
The above company has been registered in terms of section 14 of the Companies Act, 2008.
In accordance with the Notice of Incorporation, the registration of the company takes effect on 12/02/2016.
In conjunction with this certificate, the Commission has not issued another notice contemplated in section 12 (3).

Acting Commissioner: CIPC

About this Notice

This Notice is issued in terms of section 14 of the Companies Act, 2008, and Regulation 14 of the Companies Regulations, 2011.
If the Commission has altered the name of the company, in terms of section 14 (2) (b), the company may file an amended Notice of Incorporation to change the name.
If the Commission has issued a Notice of a Potentially Conflicted Name in conjunction with the Certificate, the company must serve that Notice on each person identified in the Notice, and any such person has the right to challenge the use of the name, by the company.

The Companies and Intellectual Property Commission of South Africa
P.O. Box 433, Pretoria, 001, Republic of South Africa
Deans 256, Pretoria
Contact centre 086 100 2472
www.cipc.co.za



Registration Certificate

Certificate issued by the Companies and Intellectual Property Commission on Friday, February 12, 2016 09:36

Registration number	2016 / 05098 / 07
Enterprise name	GOLD RUSH TRADING (PTY) LTD
Enterprise shortened name	NOT APPLICABLE
Enterprise translated name	NOT APPLICABLE
Registration date	12/02/2016
Business start date	12/02/2016
Enterprise type	PRIVATE COMPANY
Enterprise status	IN BUSINESS
Financial year end	FEBRUARY
Type of MOI	STANDARD (COR15.1A)
Main business/aim object	BUSINESS ACTIVITIES NOT RESTRICTED.
Postal address	P O BOX 5039 ILLOVO JOHANNESBURG GAUTENG 2116
Address of registered office	NO 4 CHAPLIN ROAD CHAPLIN CORNER ILLOVO GAUTENG 2116

The Companies and Intellectual Property Commission of South Africa
P.O. Box 433, Pretoria, 001, Republic of South Africa
Deans 256, Pretoria
Contact centre 086 100 2472
www.cipc.co.za

While Muddy Waters present the company as being located in a “shady area”, in reality the company is located in Johannesburg in a well-developed area, which appears online under the photo seen herein on the left.



It is branded under “Jomo Health” and led by Prof. Risenga Frank Chauke who is a Cardiothoracic Surgeon and the Acting Dean SOM at Sefako Makgatho Health Sciences University.

The company is backed by Jomo Sono, which is mentioned in multiple sources online, who is a former football coach and now one of the most prominent businessmen in Africa and an activist for social agendas who was voted as 49th in 100 greatest S. Africans.

Jomo Health is cited multiple times in context with the Dept. of Health in Gauteng, Dept. of Health in Limpopo, in connection with the Netcare and LenMed medical centers as well as NBC Health, Mediwel and Intercare.

Whether the misleading representation of Nanox business partners is a direct instance of misdirection or an honest instance of research negligence, simple fact-checking indicates that Nanox with seemingly reputable, valid and in many cases influential parties with strong ties to both the medical and business sectors in their regions of operation.

Prof. Risenga Frank Chauke

MB ChB, MMed (Thoracic-Chir) (Medunsa), Ass FC (Cardio) SA, MBA (Gibs-UP)



Prof. Chauke is the Professor and Head of the Cardiothoracic Surgery Department at the joint newly established Sefako Makgatho Health Sciences University (SMU), formerly known as the University of Limpopo (Medunsa Campus) and Dr George Mukhari Academic Hospital complex. His mandate as a joint appointee in the complex includes service delivery, teaching and research.

Prof. Chauke completed his higher education at Bankuna High School in 1988. He went on to do an MB ChB at Medunsa, graduating in 1994, after which he embarked on a specialist course in Cardiothoracic Surgery (MMed Thoracic Chir), which he completed in 2002. He was invited to be an associate in the College of Cardiothoracic Surgeons of the Colleges of Medicine of South Africa (SA), and went on to do a course in learning facilitation through the Assessment College of SA in 2012. He then enrolled for a Masters in Business Administration through the Gordon Institute of Business Science at the University of Pretoria, which he completed in 2014. Prof. Chauke has been awarded certificates from a number of attendance courses, which include, among others, a certificate in video-assisted thoracoscopic surgery and a certificate in thoracic endovascular aneurysm repair.

He has worked at hospitals such as Letaba Hospital, Pretoria Academic Hospital and Ga-Rankuwa Hospital, now called Dr George Mukhari Academic Hospital. He is also running his limited private practice at Louis Pasteur Private Hospital.

Prof. Chauke is also the chairperson of the Bankuna Alumni association, which aims at motivating and giving career guidance to the high-school students at Bankuna High School and Nkawkankowa circuit.

He sits on various committees and boards, including:

- School Board of Medicine, SMU
- Faculty Board of Health Science, SMU
- Medical Advisory Council, SMU and Dr George Mukhari Academic Hospital
- Executive Committee of SAMA Trade Union
- Executive Committee of the Society of Cardiothoracic Surgeons of SA
- Councillor of the College of Cardiothoracic Surgeons of SA, a division of the Colleges of Medicine of SA
- Vice-Chair of SAMA Gauteng North Branch.

He previously served as:

- Medunsa Student Representative Council Ad-hoc President
- Executive Committee of Senior Doctors Association of SA
- Chairperson of the Board of Calvary Servanthood Community Church.

Prof. Chauke serves in various business structures, including:

- African Haze Trading 20cc, trading as Comprehensive Cure
- Tsholofelo Entsha (Pty) Ltd.

He also serves on local organising committees for national and international conferences.

Both Short Sellers Reports attempt to call into question the reputability of Nanox distributors as well. However, some fact checking quickly demonstrates the validity and relevance of the distributors mentioned in the Short Sellers Reports. Nanox's Australian distributor, for example, is one of the largest in the region with multiple health product lines including medical devices. Their Spanish distributor, APR S.R.L, among other activities provide services to multiple CT and MRI sites nationwide with strong connections to local medical communities.



+80

CT AND MRI
GEHC, SIEMENS, PHILIPS



+800

DIGITAL AND ANALOGIC
RADIOLOGY SYSTEMS
MULTI-OEM



+500

ULTRA SOUNDS
MULTI-OEM

PRIVATE HEALTHCARE COMPANIES



PUBLIC SECTOR HEALTHCARE



Their Italian Distributor, Promedica Bioelectronics S.r.l. has over twenty-five years of experience in the field of marketing and technical management of Medical Diagnostic Imaging and Oncology Therapy.

Additionally, the Muddy Waters report also attempts to cast doubt on the validity of the company's pre-sale deals by misrepresenting standard industry practices, and presenting the company's pre-sale deals as questionable because they pertain to products yet to be manufactured, and because the pre-sale agreements contain clauses that allow distributors to pull out of their contract with the company under specific circumstances:

Muddy Waters Report: *“No pre-sale deals without a product”*

Muddy Waters Report: *“Buried in the small print of the company's prospectus are significant get-out clauses with the distributor agreements.”*

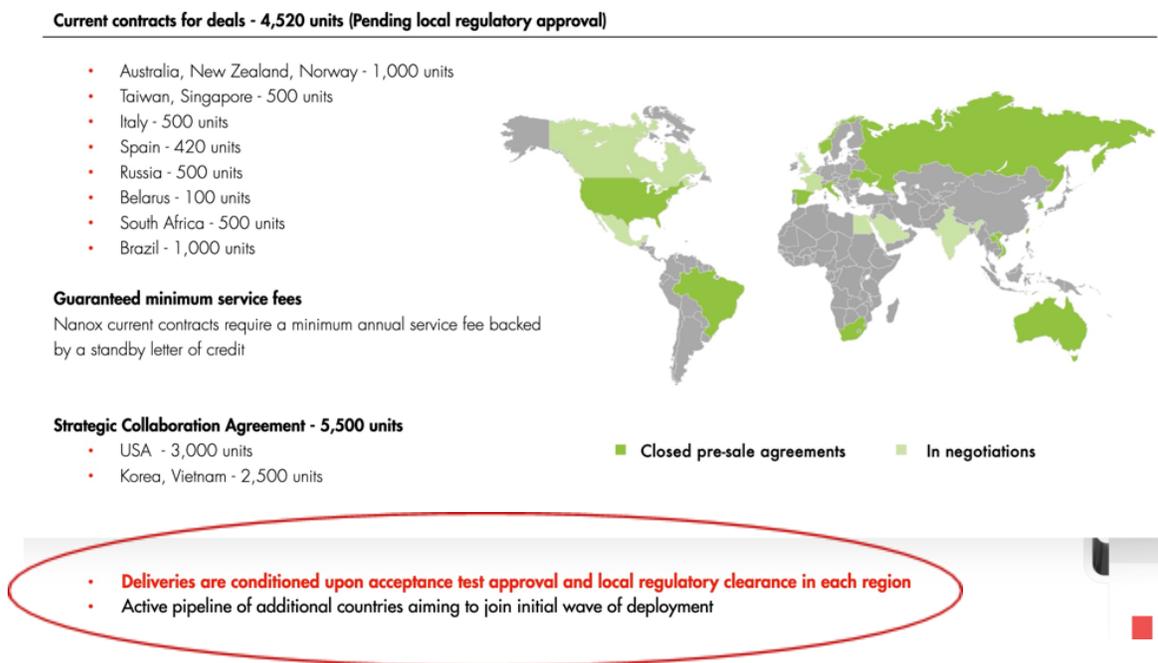
Firstly, Nanox has disclosed in its prospectus the pre-sale deals with all its partners that amount to over \$300 million in service commitments over the next 3 years after initial deployment. Secondly, it is common industry practice to make pre-sales and pre-orders for products before the product is actually manufactured. What the Short Sellers Report attempts to present as an “impossibility” is in fact a perfectly legitimate business practice.

Apple, for example, has been pre-selling its products 6-9 months ahead of production for years. Nanox is a company whose specific business model entails offering medical imaging devices for free, and this unprecedented proposition has, by necessity, very clear limits – there are only 15,000 units available as per their declared plan. This type of an offer is one of a kind and extremely lucrative for many countries for obvious reasons. Each 1,000 units provided for free are equivalent roughly to a 1 Billion dollars investment by Nanox in that region. A pre-sale transaction makes complete sense in order to secure units on the distributors' side while Nanox pursues the necessary steps of obtaining clarity of required logistics and regulatory processes in advance for all target regions.

Furthermore, within the context of the company’s pre-sale agreements, because distributors have not yet had the opportunity of testing the system in practice, eventual execution of the full contract is conditional upon an Acceptance Test (validating the proper functionality of the system) and upon regional regulatory approval. According to the company investment presentation and prospectus, the distributors' signed firm pre-orders backed by a standby letter of credit, and it is only logical that if by some unforeseeable reason Nanox does not deliver the product or the required regulatory clearance then there has to be an out-clause for the distributors to walk-away.

While the Muddy Waters report attempts to present out-clauses for distributors in the company’s pre-sale agreements as questionable, in reality they are perfectly legitimate and justifiable, and in reality it would be highly questionable from an industry practices standpoint to not have such clauses, and to structure pre-sale deals in a way that did not tie the eventual execution of the sale to necessary future actions such as an Acceptance Test and regional regulatory approval

While the Muddy Waters report presents these clauses as being “buried in the small print”, in actuality they are featured prominently and transparently in the company’s prospectus and official investor presentation, in the same font size as the rest of the text, emboldened and presented in red text specifically to draw attention to their presence.



The Short Sellers Reports also use a misrepresentation of the company's business model to claim that distributors would be unable to cover their minimum fee commitments to Nanox. Nanox's regional partners are distributors of the Nanox **service** – they are **not** the service consumers. According to the prospectus, the partners are obligated to market and promote the Nanox services to **3rd party clinics and medical centers** in their region. As such, the partners get the commitments of minimum fees from said 3rd party clinics and cover the minimum back-to-back to Nanox. Thus, the company's sale strategy appears to be perfectly valid, and the nature of this sales strategy is fully disclosed in their prospectus and investor presentation.

VII. Use of misleading information in an attempt to discredit company management

Muddy Waters and Citron Research with some unknown purpose are making specific emphasis in their documents on Mr. Eli Reifman and the fact that he was sentenced to prison in 2011. We have not found any concrete evidence that Mr. Reifman has connections with Nanox, nor have we found his connections with A-Labs.

All the assumptions made by Citron and Muddy Waters are based on the information of an anonymous source - a supposed ex-employee of the company. Therefore we are regarding this case as irrelevant to the overall analysis of the Nanox case, unless there is tangible evidence of Eli Reifman's involvement in the process, confirmed by people willing to disclose their names. Until then we are considering Eli Reifman's alleged involvement to be no more than a rumour.

Nonetheless, taking into account that quite a substantial portion of short-sellers' reports is dedicated to Eli Reifman, ***we are providing several key facts:***

1. There is no direct evidence that Reifman was even involved with Nanox, let alone to what extent. However, as we see it, Reifman's legal transgressions that took place over a decade ago were leveraged by Muddy Waters and Citron to instil fear and distrust, leveraging half-truths, false and unsubstantiated claims that amount to a deliberate misdirection of the investors who read their reports.
2. From what we have found, Reifman was sentenced in 2011 for 4 years, paid his debt and was released 1 year early, already in 2014, due to good behaviour.
3. According to multiple online sources, Eli Reifman was an Israeli technology entrepreneur who was in many cases referred to by the press as a technological and business "Boy Wonder". This may lead to the potential conclusion that he is an experienced businessman in international and capital markets. Reifman was also renowned for his expertise in innovation, technology and capital markets and was frequently invited as keynote speaker for lectures at academic institutions and conferences.
4. After his release from prison, he was invited as a speaker at the [INSOL 2017](#) Conference (INSOL is an international federation of national associations of accountants and lawyers) which is exclusively attended by judges and lawyers from Israel. It is clear that Mr. Reifman has a positive reputation among many Israeli governmental and judicial representatives.

5. Eli Reifman has a significant track record in charitable and non-profit activities, like donations and grant of funds in a total of over 936 million NIS (approximately USD 250 million) post-tax; thousands of full scholarships given to students from low socioeconomic backgrounds, extended help to both Jewish and Arab communities with significant donations and funds; finance of handicaps sports team for many years; finance of non-profit charities for coaching delinquent youth; charity and academic work from prime ministers and academic institutions.
6. We consider that Mr. Reifman was brought to the Nanox case with some specific purpose by Muddy Waters' and Citron Research's, and with specific purpose was presented from the negative side. The purpose of such actions by short-sellers is questionable.
7. If we assume theoretically that Nanox management had any connections with Mr. Reifman as an advisor, there is no legal or practical case to consider it to be destructive or fraudulent.

Additional background information:

On September 19, 2011, Reifman was sentenced to four years in prison by an Israeli judge, David Rosen, for forgery which allowed him to take \$6.3 million from two U.S.-based hedge funds. The sentence itself is a public document accessible via the Israeli judicial records archive Nevo system.¹²



Excerpt from the Reifman Sentence on nevo.co.il

We did not find any priors. But Reifman's conviction and sentence in that case are factual. His trial was widely covered by Israeli and foreign media over many months. Citron and Muddy Waters have been accurate in stating that he is in fact a convicted felon.

Furthermore, in the final summation of Reifman's sentence, judge Rosen is indicating the circumstances of Reifman's mitigating circumstances for a reduced sentence. The judge's portrayal was most unexpected.

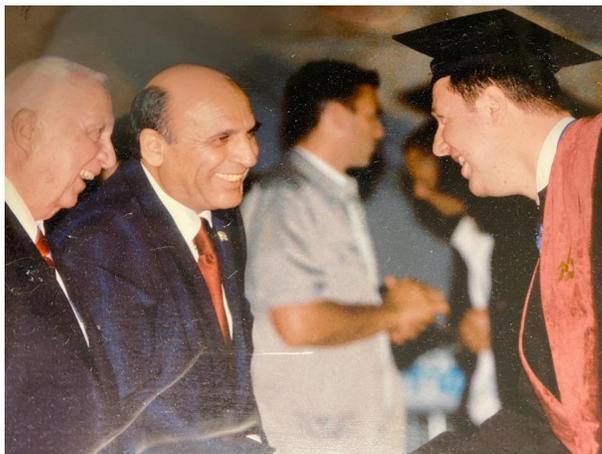
¹² <https://www.nevo.co.il/>

Judge Rosen, in the official Reifman sentence, after outlining Reifman's transgressions, states the following (translated into English from Hebrew, underlines added, but bold emphasis in the original):

- a. "The accused is a 41 year-old exemplary citizen that led a normative life, a father to 3 children with no prior records.
- b. The accused has served in a secret unit in the Israeli Defense Forces, acted for the benefit of the general public and established a formidable company that employs thousands in Israel and worldwide. The company has succeeded and thrived under the management of the defendant who has also contributed using his skills to the benefit of his employees and the general public.
- c. **The defendant has not performed fraud against innocent, powerless and unsophisticated victims. With all the severity of his actions, the defendant has not weaved a web of lies to entrap innocent victims. The defendant has performed the transgressions he was accused of while encountering difficulties in his business that led him to his actions.** The defendant has taken funds from the plaintiffs who are sophisticated and experienced businessmen, that have entered into business with the defendant fully aware of the business risks on one hand while also aware of the significant potential profits they can expect.
- d. **There is no dispute that the defendant was never accused or suspected of an intent to take the funds into his own pocket.**
- e. The main point is, that the process of the defense procedures has **revealed the beautiful face of the defendant [as stated in original and an accurate translation from Hebrew!]**.
We are talking here about a defendant that sought to do good and contribute to his environment as much as he could. We are talking about a personality rare in its generosity [an accurate translation from Hebrew]. The defendant has donated vast amounts measured in tens of millions of NIS. The defendant has acted in the interest of the public and the community while investment of resources and performing multiple benevolent acts such as lecturing to thousands of students and ordinary citizens without any remuneration."



Courtesy of Bar-Ilan university, Israel



Courtesy of Bar-Ilan university, Israel, Reifman receives Honorary Doctorship from Arik Sharon, former Prime Minister of Israel and Shaul Mofaz, the former Defense Minister of Israel

In the Citron and Muddy reports, the authors assumed the connection between Eli Reifman, Albas Advisory & Finance (who were engaged by Nanox as lead advisors to the IPO) and Ms. Margarita Alter, who is connected to both Reifman and A-Labs via an alleged 40.1% ownership in A-Labs itself.

An Israeli public records registrar issues a printed copy of the A-Labs shareholding showing the holdings to be :

- 80% - by Doron Cohen
- 10% - by Roni Liberman
- 10% - by Noah Herscovici

מידע על פרטי חברה, כולל שיעבודים פעילים

פרטי חברה	מספר חברה: 515681757	סטטוס משפטי: פעילה	תאריך רישום: 29/06/2017
שם חברה: מעבדות א מימון וייעוץ בע"מ	שם חברה באנגלית: A-LABS FINANCE & ADVISORY LTD		
סוג חברה: ישראלית	סיווג חברה: חברה פרטית	אחריות בעלי מניות: מוגבלת	כתובת התאגיד: ויינברג 4 כפר סבא מיקוד: 4465328
עיקרי מטרת התאגיד: לעסוק בכל עיסוק חוקי	דוח שנתי אחרון הוגש לשנת: 2019	נרשם בתאריך: 27/01/2019	

סוג מניה: רגילות	ערך נקוב: 0.1	מטבע: שקל חדש
כמות מניות: 10,000	הון רשום: 1,000	הון מוקצה: 400

בעלי מניות	שם: כהן דורון יוסף	מס' זיהוי: 200224525	תאריך מינוי: 23/07/2017
סוג זיהוי: אזרח ישראלי	כתובת: ויינברג 4 כפר סבא מיקוד: 4465328	מחזיק ב: 3,208 מניות מסוג רגילות, בנות 0.1 שקל חדש, בהחזקה רגילה	
שם: ליברמן רוני נח	מס' זיהוי: 31909310	תאריך מינוי: 23/07/2017	
סוג זיהוי: אזרח ישראלי	כתובת: קטלב 274 בית אריה מיקוד: 7194700	מחזיק ב: 396 מניות מסוג רגילות, בנות 0.1 שקל חדש, בהחזקה רגילה	
שם: הרשקוביץ נח	מס' זיהוי: 66236951	תאריך מינוי: 23/07/2017	
סוג זיהוי: אזרח ישראלי	כתובת: רמז 19 תל אביב	מחזיק ב: 396 מניות מסוג רגילות, בנות 0.1 שקל חדש, בהחזקה רגילה	

From the Israeli Corporations Authority online public records

The registry of Ms. Alter presented by Muddy Waters as evidence seems to belong to a non-active GP fund. Ms. Alter is indeed a 40.1% holder in that fund but has no record of any holdings in A-Labs.

Conclusion:

Our investigation led us to the conclusion that Eli Reifman does not have any connection with Nanox, and we also have not found his connections with A-Labs. All the assumptions made by Citron and Muddy Waters are based on the information of an anonymous source - the supposed employee of the company. Deep Knowledge Analytics decided to stop reviewing this aspect as our team is considering it as irrelevant to the analysis, unless there is tangible evidence of Eli Reifman's involvement in the process, confirmed by people willing to release their names. Until then we are considering the fact of Eli Reifman's involvement as nothing more than a rumor.

The Short Reports were quick to take an aim en-passant at A-Labs as well. A-Labs was the lead advisor to the IPO. It means they worked with the company to advise them on the IPO process and managing all that it entails including bankers syndicate build-up, regulatory compliance advisory and corporate governance, as comes out from their website (www.alabs.com). We will address A-Labs later in our review but in the all-inclusive narrative of “everyone here is a crook”, Muddy Waters and Citron Research have described A-Labs as a culprit in the elaborate scheme of the company to defraud all with Reifman being the mastermind.

The Short Sellers Reports also attempt to call into question the performance capabilities and professional integrity of several executives and board members within the Nanox team, based on two specific claims:

1. The company’s Directors cannot be trusted because they are provided company options as remuneration, and this completely invalidates any professional integrity provided by their specific career achievements, professional experience, and reputation within their industry
2. The company’s CEO is not qualified to lead the company because he lacks medical experience and has had lawsuits against him filed by historical investors

We would expect to see a certain level of objectivity in language and the presence of concrete evidence when personal reputations are brought into question, but these are lacking in the reports of Citron and Muddy Waters. Without such objective validation, the reports’ claims amount to libel, and demonstrate a clear disregard for the minimum quality standards and levels of objectivity expected from any competent research analyst.

Firstly, providing options to directors of public companies is a common practice across the globe. These options are, by definition, tied directly to the company’s success and would have no monetary value if the company does not perform. This is an acceptable form of remuneration and like in any public company, Nanox certainly had to clear said remuneration packages through the SEC approval after auditors and lawyers have all cleared it legally and financially.

Secondly, Citron and Muddy Waters’ Short Sellers Reports make no reference to the professional experience and achievements that would otherwise objectively validate their professional reputations. Mr. Erez Meltzer (photo on the right), for example, was defamed by the Short Sellers Reports despite lifetime of achievements and almost unparalleled business and medical experience as evidenced in public records¹³.



Information about Mr. Meltzer that demonstrates the validity of his professional reputation omitted by Citron and Muddy Waters’ Short Sellers Reports, can be easily found across the web. According to online sources, Erez Meltzer has been the head of 13 different companies. He is an independent director in Nanox but he also the Chairman of Reut Group, Chairman for Smart Agro LP, Chairman at Hadassah Medical Center, Executive Chairman of MIS Implants Technologies Ltd., Chairman for Lowenstein Hospital Friends Association and Professor at Tel-Aviv University, and he is on the board of seven other reputable companies. Mr. Meltzer has held the position of Chairman of B. Gaon Holdings Ltd., Chairman for AFI Development PLC, Chief Executive Officer at Africa-Israel Investments Ltd., Vice Chairman & Chief Executive Officer of Gadot Chemical Tankers & Terminals Ltd., President & Chief Executive Officer for Creoscitex Americas Corp., Chief Executive Officer of AFI Properties Ltd., Chief Executive Officer for Scitex Corp. Ltd. and President & Chief Executive Officer for Netafim Ltd.

¹³ <https://www.marketscreener.com/business-leaders/Erez-Meltzer-06J2NK-E/biography/>

Among these companies are multibillion global conglomerates as well as large medical research and healthcare centers, clearly demonstrating the professional value that he is capable of providing to a company seeking to acquire market share in medical sectors like medical imaging, such as Nanox .

They go further to discredit Ran Poliakine himself, the CEO and founder of Nanox. In the Muddy Waters report they ask :

“Does Mr. Poliakine have qualifications that make him well-suited to run an industry-changing medical imaging company? It depends. We understand that he has no background in medicine, physics, or imaging. However, in two lawsuits, he has been alleged to have cheated investors in other businesses he ran.”

Firstly, the allegation that Mr. Poliakine is unfit to serve as CEO due to a lack of a professional background in medicine, physics or imagining can be easily dismantled. Provided that a company has staff and executives with professional experience in the core fields that its products and services fall within, the only professional acumen than a CEO needs to successfully serve is role is experience in successfully managing other companies.

Secondly, not only does Mr. Poliakine have the sufficient professional background of experience managing other companies, he also has experience serving as a founder, partner and investor in **other medical device companies**. While Mr. Poliakine’s position is managerial, and personal professional experience as a medical specialist is not a prerequisite for running a medical device company, The fact that he **does** have experience serving as a Founder and Partner in other medical device companies merely adds to his qualifications.

According to the formal F1 filing to the SEC, Ran Poliakine does not have medical experience, but his general background provides significant evidence of his qualification to serve as the CEO of Nanox. A short Internet search using his name shows that Mr., Poliakine is a serial entrepreneur who has invested his own funds alongside investors in multiple companies and projects – many of them in the medical field.

He was a founder and a partner in Wellsense (<http://wellsensevu.com/>) , a medical device company that has invented a smart sheet technology to prevent pressure injuries in hospitals, a condition that claims the lives of 60,000 people in the U.S. alone each year in the U.S. This company built the technology, passed FDA and is now successfully implementing their technology in hospitals across the U.S.

He has founded and invested in Illumigyn (<https://www.illumigyn.com/>) an early diagnostics and prevention medical device for cervical cancer and other gynecologic indications. This device has passed FDA and now being marketed globally.

Other companies include QinFlow (<https://qinflow.com/>) for blood heating solutions, Hekiabio Digital (<https://www.hekiabio.digital/en/welcome/>) which addresses the public healthcare crisis in Japan with remote telemedicine solutions, Powermat (<https://powermat.com/>) who were the original inventors of wireless charging and many others.

Mr. Poliakine has led successfully multiple medical device companies, he is well versed in traversing regulatory clearances, he seems to have a strong team of R&D and medical expertise that go with him from project to project (which speaks volumes of his leadership and interpersonal skills) and he is extremely well connected globally to build strong partnerships that can increase the likelihood of Nanox’s success.

Secondly, we find the fact that Mr. Poliakine has had lawsuits brought against him in the past completely consistent with the fact that this is quite standard practice among executives and investors in companies with large amounts of funding or revenue. Prominent entrepreneurs like Mr. Poliakine have hundreds of

interactions, successful and unsuccessful, failures, lay-offs that produce disgruntled employees and real conflicts with partners and investors alike, all during their course of a lifetime of entrepreneurship.

Steve Jobs, for example, has had multiple lawsuits filed against him, one of which was by Apple itself ¹⁴. Elon Musk was sued multiple times including one lawsuit by Pablo Escobar ¹⁵ with investigations of his dealings led by the SEC and more. Tesla alone had over 800 lawsuits against it. These examples are mentioned because they represent two entrepreneurs in whom the general public have extremely high levels of confidence, especially with regards to their capacity to effectively manage their companies.



Citron and Muddy Waters also attempt to discredit the reputation of A-Labs, the Israeli advisory and banking firm that led the Nanox IPO, presenting the firm as ‘stock promoters’ who create promotional videos to “*capture the unsuspecting minds of investors*”. This claim is both dramatically and subjectively phrased, and lacking in unbiased, third-party validation.

An online search shows A-Labs to be an advisory bank associated with multiple success stories including such examples as Else Nutrition (TSXV:BABY) (<https://elsenutrition.com/>), which provides an innovative alternative plant-based baby formula, and INX Limited (<https://token.inx.co/>), who became the first SEC/FINRA-cleared digital assets exchange in the world, as well as many others.

All companies that A-Labs provides their services for have undergone similar processes as Nnao-X, in which A-Labs undertakes an advisory role beyond mere banking (www.alabs.co), helping the company to build long-term sustainable business strategy, branding, corporate governance and global partnerships. We could find no evidence of companies backed by A-Labs having been involved in illegitimate stock promotion schemes.

When asked for commentary on A-Labs from the banking syndicates that backed the Nanox IPO (**Cantor Fitzgerald , Oppenheimer, Berenberg and CIBC**) spoke of A-Labs and Mr. Cohen, A-Labs Managing Director & CEO in very supportive terms, describing them as “*highly professional and unique advisory firm*”.

¹⁴

¹² <https://www.latimes.com/archives/la-xpm-1985-09-24-fi-18710-story.html#:~:text=Apple%20Computer%20filed%20a%20%245,company%20would%20use%20confidential%20information>

¹⁵ <https://www.ccn.com/5-most-bizarre-legal-battles-involving-tesla>

Conclusions

Deep Knowledge Analytics' independent review of two Short Sellers Reports produced by Citron and Muddy Waters on the NASDAQ-traded company Nanox (NNOX) revealed fundamental factual inaccuracies, instances of misleading information and a consistent absence of proper methodological approaches and protocols in analytical research and reporting, leading to the overall conclusion that all major allegations and claims made by the reports can be falsified and invalidated.

Major claims, their underlying inaccuracies and flaws are summarized below:

Misrepresentation of Company Product Data: The Short Sellers Reports misinterpret the nature of the company's product and its business model, claiming that a lack of comparisons between clinical data of the company's product and other medical imaging devices is questionable. In reality, NANOX's product is a single component for use in other medical imaging devices. As such, it cannot on its own produce medical imaging data in the first place, and there is no FDA requirement for it to do so. NANOX appears to have followed all standard protocols in validating the functionality of its product.

Misrepresentation of Company Business Model: The Short Sellers Reports claim that the company is unlikely to have made the innovations they claim to have been by virtue of being in direct competition with large medical imaging corporations with more resources than them. In fact, Nanox's product is an individual component intended for use in medical imaging devices produced by other vendors. Additionally, the innovations that the company actually made are entirely consistent with the size of their R&D team and spendings (both of which the Short Sellers Reports call into question). The Short Sellers Reports also misrepresented actual R&D spendings by ignoring certain components of the company's budget disclosed in their prospectus, which the Short Sellers Report authors had access to. The claim that it is impossible for companies with smaller R&D staff and budgets than major corporate players in the same sector to produce innovations in their target market is subjective, inherently unvalidatable, and can be easily falsified by numerous examples of startups disrupting existing well-established industries.

Misrepresentation of Company Management Qualifications: Another claim made by the Short Sellers Reports is a lack of professional expertise in the domains of medical imaging by the company's executive management. Firstly, these claims are demonstrably false, with many public records showing the high volume of professional experience held by the accused individuals as CEOs, entrepreneurs, investors and company management both generally and in medical device companies.

Misrepresentation of Company Partner and Distributor Validity: The Short Sellers Reports called into question the reputability and validity of several partners and distributors of Nanox, going so far as to claim that some of them are "fake", which is factually inaccurate. Our research revealed that the individuals and organizations called into question by the Short Sellers Reports are real customers with entirely valid business models, and in good standing in their professional domains.

Misrepresentation of Company Customers and Company-Distributor Relationships: The Short Sellers Reports also called into question several aspects of the company's pre-sales agreements, all of which were based either misrepresentation (such as referring to certain facts being buried in "fine print" when in actuality they were prominently highlighted in investor presentations and other documentation) or a fundamental misunderstanding of industry practices (such as the claim that including clauses allowing distributors to back out of contracts under certain circumstances is questionable; these clauses allow distributors to make contract execution conditional upon product acceptance testing and regional regulatory approval, which is entirely sensible and consistent with industry best practices).

History of Lawsuits Among Company Management: The additional claim by the Short Sellers Reports that one of the company's directors has had lawsuits filed against him in the past also omits the fact that lawsuits are standard occurrences for companies (and company management) with large volumes of funding and investment, and that there are many examples of individuals considered by the public as highly

competent entrepreneurs and company managers (such as Steve Jobs and Elon Musk) having histories of either personal or company-related lawsuits.

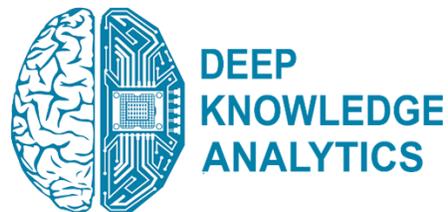
Omission of Counterbalance Provided by the Caliber of Company’s Auditors & Strategic Partners:

The Short Sellers Reports also fail to mention the high caliber of the company’s independent auditors, and the unlikelihood that such auditors failed to find evidence of misrepresented claims, if they were there to begin with. Nanox was audited, advised and supported by such reputable law and audit firms as Skadden Arps and Latham Watkins are part of the top 5 law firms in the US. PWC as auditors, Cantor Fitzgerald, CIBC, Oppenheimer, Berenberg. The report also fails to give credit to the caliber of the company’s strategic partners and investors (multi-billion dollar companies like Fuji and SK Telecom and Foxconn, and the unlikelihood that the company could have acquired such a high caliber network on the basis of false claims alone.

In summary, our independent analysis has led to the conclusion that the Short Sellers Reports’ research and core arguments are based on unsubstantiated assumptions lacking concrete evidence, a disregard of minimum standard practices for objective and unbiased market research and analysis, and the use of provocative and dramatically-worded language, with the primary aim of damaging the reputation of Nanox in an aggressive manner with unprofessional, jargon language and comparison with fraud companies. All claims made by the Short Sellers Reports can be seen either to be based on false and demonstrably falsifiable claims and assumptions, or to be clear instances of unsubstantiated libel and personal attacks lacking proper contextualization and omitting supplementary information that would otherwise counterbalance the claims being made.

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