SAPIENS INTERNATIONAL CORP N V
Form 20-F
March 27, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _______________

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report. . . . .

Commission file number **000-20181**

SAPIENS INTERNATIONAL CORPORATION N.V.

(Exact name of Registrant as specified in its charter)

Cayman Islands

(Jurisdiction of incorporation or organization)

Azrieli Center

26 Harokmim St.

Holon, 5885800 Israel

(Address of principal executive offices)

Roni Giladi, Chief Financial Officer

Tel: +972-3-790-2000

Fax+972-3-790 2942

Azrieli Center

26 Harokmim St.

Holon, 5885800 Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Class:	Name of each exchange on which registered:
Common Shares, par value € 0.01 per share	**NASDAQ Capital Market**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report

As of December 31, 2018, the issuer had 49,982,004 Common Shares, par value € 0.01 per share, outstanding (which excludes 2,328,296 Common Shares held in treasury).

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer: Accelerated filer:

Non-accelerated filer: Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

Definitions

In this annual report, unless the context otherwise requires:

references to “Sapiens,” the “Company,” the “Registrant,” “our company,” “us,” “we” and “our” refer to Sapiens International Corporation N.V., a Cayman Islands company, and its consolidated subsidiaries;

references to “our shares,” “Common Shares” and similar expressions refer to Sapiens’ Common Shares, par value € 0.01 per share;

references to “Sapiens Poland” refer to Sapiens Software Solutions (Poland) Sp.Z.O.O (formerly Insseco Sp. Z O.O), a Poland-based software and services provider for the insurance market that Sapiens acquired in the third quarter of 2015;

references to “Adaptik”, refer to Adaptik Corporation, a New Jersey company engaged in the development of software solutions, which Sapiens acquired during the first quarter of 2018;

references to “KnowledgePrice.com” refer to KnowledgePrice.com, a Latvian company that specializes in digital insurance services and consulting, which Sapiens acquired in the fourth quarter of 2017;

references to “StoneRiver” refer to StoneRiver, Inc., a Denver, Colorado- based provider of technology solutions and services to the insurance industry that Sapiens acquired in the first quarter of 2017;

references to “dollars”, “U.S. dollars”, “U.S. $” and “$” are to United States Dollars;

references to “Euro” or “€” are to the Euro, the official currency of the Eurozone in the European Union;

references to “shekels” and “NIS” are to New Israeli Shekels, the Israeli currency;

references to the "Articles" are to our Amended Articles of Association, as currently in effect;

references to the "Securities Act" are to the Securities Act of 1933, as amended;

references to the "Exchange Act" are to the Securities Exchange Act of 1934, as amended;

references to "NASDAQ" are to the NASDAQ Stock Market;

references to the "TASE" are to the Tel Aviv Stock Exchange; and

references to the "SEC" are to the United States Securities and Exchange Commission.

Cautionary Note Regarding Forward-Looking Statements

Certain matters discussed in this annual report are forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words "anticipate," "believe," "estimate," "expect," "may," "will," "plan" and similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those expressed or implied by the forward-looking statements. Please read the risks discussed in Item 3 – "Key Information" under the caption "Risk Factors" and cautionary statements appearing elsewhere in this annual report in order to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

We undertake no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this annual report might not occur.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data.

The following tables summarize certain selected consolidated financial data for the periods and as of the dates indicated. We derived the statement of operations financial data for the years ended December 31, 2016, 2017 and 2018, and the balance sheet data as of December 31, 2017 and 2018, from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of income financial data for the years ended December 31, 2014 and 2015, and the balance sheet data as of December 31, 2014, 2015 and 2016, are derived from our audited financial statements not included in this annual report. Our historical consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and presented in U.S. dollars. You should read the information presented below in conjunction with those statements.

The information presented below is qualified by the more detailed historical consolidated financial statements, the notes thereto and the discussion under “Operating and Financial Review and Prospects” included elsewhere in this annual report.

Selected Financial Data:	Year Ended December 31, (In thousands, except per share data)				
Statement of Income Data:	2014	2015	2016	2017	2018
Revenues	$157,450	$185,636	$216,190	$269,194	$289,707

Cost of revenues	99,095	111,192	130,402	175,678	180,138
Gross profit	58,355	74,444	85,788	93,516	109,569
Operating Expenses:					
Research and development	11,352	10,235	16,488	31,955	34,415
Selling, marketing, general and administrative	32,097	39,859	44,460	60,559	52,133
Total operating expenses	43,449	50,094	60,948	92,514	86,547
Operating income	14,906	24,350	24,840	1,002	23,022
Financial income (expenses), net	124	163	533	(3,010)	(3,991)
Income before tax benefit (taxes on income)	15,030	24,513	25,373	(2,008)	19,031
Tax benefit (taxes on income)	(454)	(4,213)	(5,772)	2,564	(5,031)
Net income	14,576	20,300	19,601	556	14,000
Attributed to non-controlling interest	131	59	(43)	(189)	215
Attributed to redeemable non-controlling interest	(18)	1	(135)	43	-
Adjustment to redeemable non-controlling interest	-	224	443	350	-
Net income attributable to Sapiens	14,463	20,016	19,336	352	13,785
Basic net earnings per share attributable to Sapiens' shareholders	$0.31	$0.42	$0.40	$0.01	$0.28
Diluted net earnings per share attributable to Sapiens' shareholders	$0.30	$0.41	$0.40	$0.01	$0.28
Weighted average number of shares used in computing basic net earnings per share	47,210	48,121	48,947	49,170	49,827
Weighted average number of shares used in computing diluted net earnings per share	48,637	49,327	49,780	49,926	50,106

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Balance Sheet Data:	At December 31, 2014	2015	2016	2017	2018
	(In thousands)				
Cash and cash equivalents	$47,400	$54,351	$60,908	$71,467	$64,628
Marketable securities	33,098	39,651	35,448	-	-
Working capital	43,663	51,342	72,453	60,804	48,206
Total assets	233,210	242,271	257,851	373,619	378,865
Series B Debentures (1)	-	-	-	78,281	79,809
Capital stock	249,938	234,658	227,463	221,863	215,613
Total equity(2)	$178,293	$181,809	$194,391	$200,874	$202,484

(1) In September 2017, we issued NIS 280 million (approximately $78.3 million, net of $0.96 million of debt discount and issuance costs) principal amount of Series B unsecured, non-convertible debentures, in a public offering and private placement in Israel. For more information concerning the Series B debentures, please see Item 5.B "Liquidity and Capital Resources"—"Israeli Public Offering and Private Placement of Debentures".

(2) On April 22, 2015, March 31, 2016, October 18, 2017 and September 16, 2018, our Board of Directors declared one-time cash dividends of $0.15, $0.20, $0.20 and $0.20 per Common Share (or $7.2 million, $10.0 million, $9.8 million and $10.0 million, in the aggregate, respectively), which were paid on June 1, 2015, June 1, 2016, December 14, 2017 and October 30, 2018, respectively.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

We operate globally in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The following section lists some, but not all, of those risks and uncertainties that may have a material adverse effect on our business, financial position, results of operations or cash flows.

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Risks Relating to Our Business, Our Industry and our Financing Activities

The implementation of our M&A growth strategy, which requires the integration of our multiple acquired companies, including, most recently, Adaptik, KnowledgePrice, StoneRiver, MaxPro, 4Sight, and their respective businesses, operations and employees with our own, involves significant risks, and the failure to integrate successfully may adversely affect our future results.

In the past eight years we have completed eleven acquisitions. Most recently, in the first quarter of 2018, we have acquired Adaptik, after having acquired KnowledgePrice.com and StoneRiver in 2017, and Maximum Processing Inc, or MaxPro, and 4Sight Business Intelligence, or 4Sight, in 2016. These acquisitions are part of our integrated M&A growth strategy, which is centered on three key factors: growing our customer base, expanding geographically and adding complementary solutions to our portfolio— all while we seek to ensure our continued high quality of services and product delivery. Any failure to successfully integrate the business, operations and employees of our acquired companies, or to otherwise realize the anticipated benefits of these acquisitions, could harm our results of operations. Our ability to realize these benefits will depend on the timely integration and consolidation of organizations, operations, facilities, procedures, policies and technologies, and the harmonization of differences in the business cultures between these companies and their personnel. Integration of these businesses will be complex and time-consuming, will involve additional expense and could disrupt our business and divert management's attention from ongoing business concerns. The challenges involved in integrating Adaptik, Knowledgeprice.com, StoneRiver MaxPro, 4Sight and other former acquisitions include:

Preserving customer, supplier and other important relationships;

Integrating complex, core products and services that we acquire with our existing products and services;

Integrating financial forecasting and controls, procedures and reporting cycles;

Combining and integrating information technology, or IT, systems; and

Integrating employees and related HR systems and benefits, maintaining employee morale and retaining key employees.

The benefits we expect to realize from these acquisitions are, necessarily, based on projections and assumptions about the combined businesses of our company, Adaptik, KnowledgePrice.com, MaxPro, 4Sight and StoneRiver, and assume, among other things, the successful integration of these acquired entities into our business and operations. The acquisition of StoneRiver, in particular, has significantly expanded our presence and scale in the North American insurance industry, and is expected to help us further accelerate our growing market footprint in the U.S. P&C space. The StoneRiver acquisition is the largest acquisition that we have ever effected, and failure to successfully integrate the business, operation and employees of StoneRiver could, in and of itself, significantly harm our results of operations. Our projections and assumptions concerning our acquisitions may be inaccurate, however, and we may not successfully integrate the acquired companies and our operations in a timely manner, or at all. We may also be exposed to unexpected contingencies or liabilities of the acquired companies. If we do not realize the anticipated benefits of these transactions, our growth strategy and future profitability could be adversely affected.

Our development cycles are lengthy, we may not have the resources available to complete development of new, enhanced or modified solutions and we may incur significant expenses before we generate revenues, if any, from our solutions.

Because our solutions are complex and require rigorous testing, development cycles can be lengthy, taking us up to two years to develop and introduce new, enhanced or modified solutions. Moreover, development projects can be technically challenging and expensive. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses. We may also not have sufficient funds or other resources to make the required investments in product development. Furthermore, we may invest substantial resources in the development of solutions that do not achieve market acceptance or commercial success. Even where we succeed in our sales efforts and obtain new orders from customers, the complexity involved in delivering our solutions to such customers makes it more difficult for us to consummate delivery in a timely manner and to recognize revenue and maximize profitability. Failure to deliver our solutions in a timely manner could result in order cancellations, damage our reputations and require us to indemnify our customers. Any of these risks relating to our lengthy and expensive development cycle could have a material adverse effect on our business, financial conditions and results of operations.

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Our sales cycle is variable and often lengthy, depends upon many factors outside our control, and requires us to expend significant time and resources prior to generating associated revenues.

The typical sales cycle for our solutions and services is lengthy and unpredictable, requires pre-purchase evaluation by a significant number of persons in our customers' organizations, and often involves a significant operational decision by our customers. Our sales efforts involve educating our customers and industry analysts and consultants about the use and benefits of our solutions, including the technical capabilities of our solutions and the efficiencies achievable by organizations deploying our solutions. Customers typically undertake a significant evaluation process, which frequently involves not only our solutions, but also those of our competitors and can result in a lengthy sales cycle. Our sales cycle for new customers is typically one year to two years and can extend even longer in some cases. We spend substantial time, effort and money in our sales efforts without any assurance that such efforts will produce any sales.

Investment in highly skilled research and development and customer support personnel is critical to our ability to develop and enhance our solutions and support our customers, but an increase in such investment may reduce our profitability.

As a provider of software solutions that rely upon technological advancements, we rely heavily on our research and development activities to remain competitive. We consequently depend in large part on the ability to attract, train, motivate and retain highly skilled information technology professionals for our research and development team, particularly individuals with knowledge and experience in the insurance industry. Because our software solutions are highly complex and are generally used by our customers to perform critical business functions, we also depend heavily on other skilled technology professionals to provide ongoing support to our customers. Skilled technology professionals are often in high demand and short supply. If we are unable to hire or retain qualified research and development personnel and other technology professionals to develop, implement and modify our solutions, we may be unable to meet the needs of our customers. Even if we succeed in retaining the necessary skilled personnel in our research and development and customer support efforts, our investments in our personnel and product development efforts increase our costs of operations and thereby reduce our profitability, unless accompanied by increased revenues. Given the highly competitive industry in which we operate, we may not succeed in increasing our revenues in line with our increasing investments in our personnel and research and development efforts.

Furthermore, as we seek to expand the marketing and offering of our products into new territories, it requires the retention of new, additional skilled personnel with knowledge of the particular market and applicable regulatory regime. Such skilled personnel may not be available at a reasonable cost relative to the additional revenues that we expect to generate in those territories, or may not be available at all. In particular, wage costs in lower-cost markets where we have recently added personnel, such as India, are increasing and we may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive. The transition of projects to new locations may also lead to business disruptions due to differing levels of employee knowledge and organizational and leadership skills. Although we have never experienced an organized labor dispute, strike or work stoppage, any such occurrence, including in connection with unionization efforts, could disrupt our business and operations and harm our financial condition.

Failure to manage our rapid growth— both organic and non-organic—could effectively harm our business.

We have recently experienced, and expect to continue to experience, rapid growth in our number of employees and in our international operations that has placed, and will continue to place, a significant strain on our operational and financial resources and our personnel. To manage our anticipated future growth effectively, we must continue to maintain and may need to enhance our information technology infrastructure, financial and accounting systems and controls and manage expanded operations and employees in geographically distributed locations. We also must attract, train and retain a significant number of additional qualified sales and marketing personnel, professional services personnel, software engineers, technical personnel and management personnel. Our failure to manage our rapid growth effectively could have a material adverse effect on our business, results of operations and financial condition. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new services or product enhancements. For example, since it may take as long as six months to hire and train a new member of our professional services staff, we make decisions regarding the size of our professional services staff based upon our expectations with respect to customer demand for our products and services. If these expectations are incorrect, and we increase the size of our professional services organization without experiencing an increase in sales of our products and services, we will experience reductions in our gross and operating margins and net income. If we are unable to effectively manage our growth, our expenses may increase more than expected, our revenues could decline or grow more slowly than expected and we may be unable to implement our business strategy. Our rapid growth may also be accompanied by greater exposure to litigation, including suits by clients, vendors, employees or former employees, as the sizes of our workforce and our overall international operations increase. Restructuring strategies that we have been implementing as part of our management of the effectiveness of our growth require the termination of employees, which also increases our potential exposure to suits by former employees. All such litigation carries with it related costs and could divert our management’s attention from ongoing business concerns. We also intend to continue to expand into additional international markets which, if not technologically or commercially successful, could harm our financial condition and prospects.

The skilled and highly qualified workforce that we need to develop, implement and modify our solutions may be difficult to hire, train and retain, and we could face increased costs to attract and retain our skilled workforce.

Our business operations depend in large part on our ability to attract, train, motivate and retain highly skilled information technology professionals, software programmers and communications engineers on a worldwide basis. In addition, our competitive success will depend on our ability to attract and retain other outstanding, highly qualified employees, consultants and other professionals. Because our software products are highly complex and are generally used by our customers to perform critical business functions, we depend heavily on skilled technology professionals. Skilled technology professionals are often in high demand and short supply. If we are unable to hire or retain qualified technology professionals to develop, implement and modify our solutions, we may be unable to meet the needs of our customers. In addition, serving several new customers or implementing several new large-scale projects in a short period of time may require us to attract and train additional IT professionals at a rapid rate.

If existing customers are not satisfied with our solutions and services and either do not make subsequent purchases from us or do not continue using such solutions and services, or if our relationships with our largest customers are impaired, our revenue could be negatively affected.

We depend heavily on repeat product and service revenues from our base of existing customers. Five of our customers accounted for, in the aggregate, 22% and 20.7% of our revenues in the years ended December 31, 2017 and 2018, respectively. If our existing customers are not satisfied with our solutions and services, they may not enter into new project contracts with us or continue using our technologies. A significant decline in our revenue stream from existing customers, including due to termination of agreement(s), would have a material adverse effect on our business, results of operations and financial condition.

Our business often involves long-term, large, complex projects across the globe, some of which are fixed-price projects that involve uncertainties, such as estimated project costs and profit margins. Changes in the scope of a project or in the implementation schedule mid-stream can adversely impact our expected future revenues, profitability and/or, in some cases, our relationship with the relevant client.

Our business is characterized by relatively large, complex projects or engagements that can have a significant impact on our total revenue and cost of revenue from quarter to quarter. A high percentage of our expenses, particularly employee compensation, are relatively fixed. Therefore, variations in the timing of the initiation, estimate of scope of work, progress or completion of projects or engagements can cause significant variations in operating results from quarter to quarter.

This is particularly the case for fixed-price contracts, where our delivery requirements sometimes span more than one year. For a highly complex, fixed-price project that requires customization, we may not be able to accurately estimate our actual costs of completing the project. We are often dependent on the assistance of third-parties (such as our customers' vendors or IT employees, or our system integrator partners) in implementing such a project, which may not be provided in a timely manner. If our actual cost-to-completion of such a project significantly exceeds the estimated costs, we could experience a loss on the related contract, which (when multiplied by multiple projects) could have a material adverse effect on our results of operations, financial position and cash flow.

Similarly, delays in executing client contracts (whether fixed price or not) may affect our revenue and cause our operating results to vary widely. Our solutions are delivered over periods of time ranging from several months to a few years. Payment terms are generally based on periodic payments or on the achievement of milestones. Any delays in payment or in the achievement of milestones may have a material adverse effect on our results of operations, financial position or cash flows.

For non-fixed price contracts, we generally provide our customers with up-front estimates regarding the duration, budget and costs associated with the implementation of our products. Due to the complexities described above, however, we may not meet those upfront estimates and/or the expectations of our customers, which could lead to a dispute with a client.

As an example, in 2017 we were involved in a dispute with a significant customer (which accounted for approximately 12% of our revenues in 2016) under a software development project agreement, which agreement provided for the customizing, enhancement and implementation of a new product. The customer alleged that we had materially breached our agreement with the customer. After carefully examining the customer's allegations, we informed the customer that we had not materially breached any of our obligations under the agreement and that the customer had itself materially breached the agreement. Work on the project was canceled due to the dispute. While we eventually entered into a settlement agreement with the customer, that settlement resulted in the termination of the software development project agreement, which resulted in a reduction in our revenues and operating profit relative to our prior estimates for 2017. Similar such disputes with other significant customers in the future, whether due to failure on our part to meet upfront estimates or customer expectations, or even absent such failures on our part, could harm our reputation, thereby adversely affecting our ability to attract new customers and to sell additional solutions and services to existing customers.

As a further example, in 2018, a South African customer changed the scope of an ongoing project significantly, which resulted in a decrease in the revenues realized from that customer during 2018. The project, as originally planned, will not continue. Currently, we provide some IT services to that customer, which provides a small revenue stream for us that is expected to continue in 2019. That decrease in revenue adversely impacted our revenues in 2018.

We may be liable to our clients for damages caused by a violation of intellectual property rights, the disclosure of other confidential information, including personally identifiable information, system failures, errors or unsatisfactory performance of services, and our insurance policies may not be sufficient to cover these damages.

We often have access to, and are required to collect and store, sensitive or confidential client information, including personally identifiable information. Some of our client agreements do not limit our potential liability for breaches of confidentiality, infringement indemnity and certain other matters. Furthermore, breaches of confidentiality may entitle the aggrieved party to equitable remedies, including injunctive relief. If any person, including any of our employees and subcontractors, penetrates our network security or misappropriates sensitive or confidential client information, including personally identifiable information, we could be subject to significant liability from our clients or from our clients' customers for breaching contractual confidentiality provisions or privacy laws. Despite measures we take to protect the intellectual property and other confidential information or personally identifiable information of our clients, unauthorized parties, including our employees and subcontractors, may attempt to misappropriate certain intellectual property rights that are proprietary to our clients or otherwise breach our clients' confidences. Unauthorized disclosure of sensitive or confidential client information, including personally identifiable information, or a violation of intellectual property rights, whether through employee misconduct, breach of our computer systems, systems failure or otherwise, may subject us to liabilities, damage our reputation and cause us to lose clients.

Many of our contracts involve projects that are critical to the operations of our clients' businesses and provide benefits to our clients that may be difficult to quantify. Any failure in a client's system or any breach of security could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Furthermore, any errors by our employees in the performance of services for a client, or poor execution of such services, could result in a client terminating our engagement and seeking damages from us.

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In addition, while we have taken steps to protect the confidential information that we have access to, including confidential information we may obtain through usage of our cloud-based services, our security measures may be breached. If a cyber-attack or other security incident were to result in unauthorized access to or modification of our customers' data or our own data or our IT systems or in disruption of the services we provide to our customers, or if our products or services are perceived as having security vulnerabilities, we could suffer significant damage to our business and reputation.

Although we attempt to limit our contractual liability for consequential damages in rendering our services, these limitations on liability may not apply in all circumstances, may be unenforceable in some cases, or may be insufficient to protect us from liability for damages. There may be instances when liabilities for damages are greater than the insurance coverage we hold and we will have to internalize those losses, damages and liabilities not covered by our insurance.

Changes in privacy regulations may impose additional costs and liabilities on us, limit our use of information, and adversely affect our business.

Personal privacy has become a significant issue in the United States, Europe, and many other countries where we operate. Many government agencies and industry regulators continue to impose new restrictions and modify existing requirements about the collection, use, and disclosure of personal information. Changes to laws or regulations affecting privacy and security may impose additional liability and costs on us and may limit our use of such information in providing our services to customers. If we were required to change our business activities, revise or eliminate services or products, or implement burdensome compliance measures, our business and results of operations may be harmed. Additionally, we may be subject to regulatory enforcement actions resulting in fines, penalties, and potential litigation if we fail to comply with applicable privacy laws and regulations.

In particular, our European activities are subject to the new European Union General Data Protection Regulation, or GDPR, which has created additional compliance requirements for us. GDPR broadens the scope of personal privacy laws to protect the rights of European Union citizens and requires organizations to report on data breaches within 72 hours and be bound by more stringent rules for obtaining the consent of individuals on how their data can be used. GDPR became enforceable on May 25, 2018 and non-compliance may expose entities such as our company to significant fines or other regulatory claims. While we have invested in, and intend to continue to invest in, reasonably necessary resources to comply with these new standards, to the extent that we fail to adequately comply, that failure could have an adverse effect on our business, financial conditions, results of operations and cash flows.

Errors or defects in our software solutions could inevitably arise and would harm our profitability and our reputation with customers, and could even give rise to claims against us.

The quality of our solutions, including new, modified or enhanced versions thereof, is critical to our success. Since our software solutions are complex, they may contain errors that cannot be detected at any point in their testing phase. While we continually test our solutions for errors or defects and work with customers to identify and correct them, errors in our technology may be found in the future. Testing for errors or defects is complicated because it is difficult to simulate the breadth of operating systems, user applications and computing environments that our customers use, and our solutions themselves are increasingly complex. Errors or defects in our technology have resulted in terminated work orders and could result in delayed or lost revenue, diversion of development resources and increased services, termination of work orders, damage to our brand and warranty and insurance costs in the future. In addition, time-consuming implementations may also increase the number of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

In addition, since our customers rely on our solutions to operate, monitor and improve the performance of their business processes, they are sensitive to potential disruptions that may be caused by the use of, or any defects in, our software. As a result, we may be subject to claims for damages related to software errors in the future. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. Regardless of whether we prevail, diversion of key employees' time and attention from our business, the incurrence of substantial expenses and potential damage to our reputation might result. While the terms of our sales contracts typically limit our exposure to potential liability claims and we carry errors and omissions insurance against such claims, there can be no assurance that such insurance will continue to be available on acceptable terms, if at all, or that such insurance will provide us with adequate protection against any such claims. A significant liability claim against us could have a material adverse effect on our business, results of operations and financial position.

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The market for software solutions and related services is highly competitive.

The market for software solutions and related services and for business solutions for the insurance and financial services industry in particular, is highly competitive. Many of our smaller competitors have been acquired by larger competitors, which provides such smaller competitors with greater resources and potentially a larger client base for which they can develop solutions. Our customers or potential customers may prefer suppliers that are larger than us, are better known in the market or that have a greater global reach. In addition, we and some of our competitors have developed systems to allow customers to outsource their core systems to external providers (known as BPO). We are seeking to partner with BPO providers, but there can be no assurance that such BPO providers will adopt our solutions rather than those of our competitors. Determinations by current and potential customers to use BPO providers that do not use our solutions may result in the loss of such customers and limit our ability to gain new customers.

Consolidation in the insurance industry in which some of our clients operate also increases competitiveness for us by reducing the number of potential clients for whose business we and our competitors compete. The high level of continuity with which insurance and other financial services clients remain with their providers of software-related services also increases general competitiveness by tying clients to their service providers and thereby shrinking the market of potential clients.

Incorrect or improper use of our products or our failure to properly train customers on how to implement or utilize our products could result in customer dissatisfaction and negatively affect our business, results of operations, financial condition and growth prospects.

Our products are complex and are deployed in a wide variety of network environments. The proper use of our solutions requires training of the customer. If our solutions are not used correctly or as intended, inadequate performance may result. Additionally, our customers or third-party partners may incorrectly implement or use our solutions. Our solutions may also be intentionally misused or abused by customers or their employees or third parties who are able to access or use our solutions. Similarly, our solutions are sometimes installed or maintained by customers or third parties with smaller or less qualified IT departments, potentially resulting in sub-optimal installation and, consequently, performance that is less than the level anticipated by the customer. Because our customers rely on our software, services and maintenance support to manage a wide range of operations, the incorrect or improper use of our solutions, our failure to properly train customers on how to efficiently and effectively use our solutions, or our failure to properly provide implementation or maintenance services to our customers has resulted in terminated work orders and may result in termination of work orders, negative publicity or legal claims against us in the future. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our software and services.

In addition, if there is substantial turnover of customer personnel responsible for implementation and use of our products, or if customer personnel are not well trained in the use of our products, customers may defer the deployment of our products, may deploy them in a more limited manner than originally anticipated or may not deploy them at all. Further, if there is substantial turnover of the customer personnel responsible for implementation and use of our products, our ability to make additional sales may be substantially limited.

Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and results of operations.

The software industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents and other intellectual property rights. In particular, leading companies in the software industry own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims against us. From time to time, third parties, including certain of these leading companies, may assert patent, copyright, trademark or other intellectual property claims against us, our customers and partners, and those from whom we license technology and intellectual property.

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Although we believe that our products and services do not infringe upon the intellectual property rights of third parties, we cannot assure you that third parties will not assert infringement or misappropriation claims against us with respect to current or future products or services, or that any such assertions will not require us to enter into royalty arrangements or result in costly litigation, or result in us being unable to use certain intellectual property. We cannot assure you that we are not infringing or otherwise violating any third party intellectual property rights. Infringement assertions from third parties may involve patent holding companies or other patent owners who have no relevant product revenues, and therefore our own issued and pending patents may provide little or no deterrence to these patent owners in bringing intellectual property rights claims against us.

Any intellectual property infringement or misappropriation claim or assertion against us, our customers or partners, and those from whom we license technology and intellectual property could have a material adverse effect on our business, financial condition, reputation and competitive position regardless of the validity or outcome. If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court, or are determined in our favor, we may be required to expend significant time and financial resources on the defense of such claims. Furthermore, an adverse outcome of a dispute may require us to pay damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed on a party's intellectual property; cease making, licensing or using our products or services that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our products or services; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or works; and to indemnify our partners, customers, and other third parties. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Any of these events could seriously harm our business, results of operations and financial condition. In addition, any lawsuits regarding intellectual property rights, regardless of their success, could be expensive to resolve and divert the time and attention of our management and technical personnel.

Although we apply measures to protect our intellectual property rights and our source code, there can be no assurance that the measures that we employ to do so will be successful.

In accordance with industry practice, since we have no registered patents on our software solution technologies, we rely on a combination of contractual provisions and intellectual property law to protect our proprietary technology. We believe that due to the dynamic nature of the computer and software industries, copyright protection is less significant than factors such as the knowledge and experience of our management and personnel, the frequency of product enhancements and the timeliness and quality of our support services. We seek to protect the source code of our products as trade secret information and as unpublished copyright works. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements that grant customers a personal, non-transferable license to use our products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of our products. In addition, while we attempt to protect trade secrets and other proprietary information through non-disclosure agreements with employees, consultants and distributors, not all of our employees have signed invention assignment agreements. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful. Our failure to protect our rights, or the improper use of our products by others without licensing them from us could have a material adverse effect on our results of operations and financial condition.

We and our customers rely on technology and intellectual property of third parties, the loss of which could limit the functionality of our products and disrupt our business.

We use technology and intellectual property licensed from unaffiliated third parties in certain of our products, and we may license additional third-party technology and intellectual property in the future. Any errors or defects in this third-party technology and intellectual property could result in errors that could harm our brand and business. In addition, licensed technology and intellectual property may not continue to be available on commercially reasonable terms, or at all. The loss of the right to license and distribute this third party technology could limit the functionality of our products and might require us to redesign our products.

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Further, although we believe that there are currently adequate replacements for the third-party technology and intellectual property we presently use and distribute, the loss of our right to use any of this technology and intellectual property could result in delays in producing or delivering affected products until equivalent technology or intellectual property is identified, licensed or otherwise procured, and integrated. Our business would be disrupted if any technology and intellectual property we license from others or functional equivalents of this software were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required either to attempt to redesign our products to function with technology and intellectual property available from other parties or to develop these components ourselves, which would result in increased costs and could result in delays in product sales and the release of new product offerings. Alternatively, we might be forced to limit the features available in affected products. Any of these results could harm our business and impact our results of operations.

We could be required to provide the source code of our products to our customers.

Some of our customers have the right to require the source code of our products to be deposited into a source code escrow. Under certain circumstances, our source code could be released to our customers. The conditions triggering the release of our source code vary by customer. A release of our source code would give our customers access to our trade secrets and other proprietary and confidential information which could harm our business, results of operations and financial condition. A few of our customers have the right to use the source code of some of our products based on the license agreements signed with such clients (mostly with respect to older versions of our solutions), although such use is limited for specific matters and cases, these clients are exposed to some of our trade secrets and other proprietary and confidential information which could harm us.

Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.

A significant invasion, interruption, destruction or breakdown of our information technology, or IT, systems and/or infrastructure by persons with authorized or unauthorized access could negatively impact our business and operations. We could also experience business interruption, information theft and/or reputational damage from cyber attacks, which may compromise our systems and lead to data leakage internally. Both data that has been inputted into our main IT platform, which covers records of transactions, financial data and other data reflected in our results of operations, as well as data related to our proprietary rights (such as research and development, and other intellectual property- related data), are subject to material cyber security risks. Our IT systems have been, and are expected to continue to be, the target of malware and other cyber attacks. To date, we are not aware that we have experienced any loss of, or disruption to, material information as a result of any such malware or cyber attack.

We have invested in advanced detection, prevention and proactive systems to reduce these risks. Based on independent audits, we believe that our level of protection is in keeping with the industry standards of peer technology companies. We also maintain a disaster recovery solution, as a means of assuring that a breach or cyber attack does not necessarily cause the loss of our information. We furthermore review our protections and remedial measures periodically in order to ensure that they are adequate.

Despite these protective systems and remedial measures, techniques used to obtain unauthorized access are constantly changing, are becoming increasingly more sophisticated and often are not recognized until after an exploitation of information has occurred. We may be unable to anticipate these techniques or implement sufficient preventative measures, and we therefore cannot assure you that our preventative measures will be successful in preventing compromise and/or disruption of our information technology systems and related data. We furthermore cannot be certain that our remedial measures will fully mitigate the adverse financial consequences of any cyber attack or incident.

Catastrophes may adversely impact the P&C insurance industry, preventing us from expanding or maintaining our existing customer base and increasing our revenues.

Our customers include P&C insurance carriers that have experienced, and will likely experience in the future, catastrophe losses that adversely impact their businesses. Catastrophes can be caused by various events, including, amongst others, hurricanes, tsunamis, floods, windstorms, earthquakes, hail, tornados, explosions, severe weather and fires. Moreover, acts of terrorism or war could cause disruptions in our or our customers’ businesses or the economy as a whole. The risks associated with natural disasters and catastrophes are inherently unpredictable, and it is difficult to predict the timing of such events or estimate the amount of loss they will generate. In the event a future catastrophe adversely impacts our current or potential customers, we may be prevented from maintaining and expanding our customer base and from increasing our revenues because such events may cause customers to postpone purchases of new products and professional service engagements or discontinue projects.

Decreases in the capital markets may adversely impact the life insurance industry, thereby preventing us from expanding or maintaining our existing customer base and increasing our revenues.

Our customers include life insurance carriers that have invested some of their funds in the capital markets. Those carriers may experience in the future major losses in those capital market investments that may cause disruptions to their businesses or to the economy as a whole. Any such major disruption, may cause those existing or potential new customers to postpone purchases of new products or professional service engagements, or discontinue existing projects, which, in turn, may prevent us from increasing our revenues, or from maintaining or expanding our customer base.

There may be consolidation in the life insurance market, which could reduce the use of our products and services and adversely affect our revenues.

Mergers or consolidations among our customers could reduce the number of our customers and potential customers. This could adversely affect our revenues even if these events do not reduce the aggregate number of customers or the activities of the consolidated entities. If our customers merge with or are acquired by other entities that are not our customers, or that use fewer of our products and services, they may discontinue or reduce their use of our products and services. Any of these developments could materially and adversely affect our results of operations and cash flows.

Some of our services and technologies may use “open source” software, which may restrict how we use or distribute our services or require that we release the source code of certain products subject to those licenses.

Some of our services and technologies may incorporate software licensed under so-called “open source” licenses, including, but not limited to, the GNU General Public License and the GNU Lesser General Public License. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Additionally, open source licenses typically require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. These open source licenses typically mandate that proprietary software, when combined in specific ways with open source software, become subject to the open source license. If we combine our proprietary software with open source software, we could be required to release the source code of our proprietary software.

We take steps to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require our proprietary software to be subject to an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty. Additionally, we rely on multiple software programmers to design our proprietary technologies, and although we take steps to prevent our programmers from including open source software in the technologies and software code that they design, write and modify, we do not exercise complete control over the development efforts of our programmers and we cannot be certain that our programmers have not incorporated open source software into our proprietary products and technologies or that they will not do so in the future. In the event that portions of our proprietary technology are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our services and technologies and materially and adversely affect our business, results of operations and prospects.

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Our deed of trust related to our Series B Debentures contains certain affirmative covenants and restrictive provisions that, if breached, could result in an increase in the interest rate and, potentially, an acceleration of our obligation to repay those debentures, which we may be unable to effect.

In the deed of trust that we have entered into with the trustee for the holders of our Series B Debentures, or the debentures, which we offered and sold in an Israeli public offering and Israeli private placement in September 2017, we have undertaken to maintain a number of conditions and limitations on the manner in which we can operate our business, including limitations on our ability to undergo a change of control, distribute dividends, incur a floating charge on our assets, or undergo an asset sale or other change that results in a fundamental change in our operations. The deed of trust also requires us to comply with certain financial covenants, including maintenance of a minimum shareholders' equity level and a maximum ratio of financial indebtedness to shareholders' equity, at levels that are customary for companies of comparable size. These limitations and covenants may force us to pursue less than optimal business strategies or forego business arrangements that could otherwise be financially advantageous to us and, by extension, our debenture holders. The deed of trust furthermore provides for an upwards adjustment in the interest rate payable under the debentures in the event that our debentures' rating is downgraded below a certain level. A breach of the financial covenants for more than two successive quarters or a substantial downgrade in the Israeli rating of the debentures (below BBB-) would constitute an event of default that could result in the acceleration of our obligation to repay the debentures, of which there is NIS 280 million (approximately US $79.14 million) principal amount outstanding, which accelerated repayment may be difficult for us to effect.

Risks Relating to Our International Operations

Our international sales and operations subject us to additional risks that can adversely affect our business, results of operations and financial condition.

We are continuing to expand our international operations as part of our growth strategy. In fiscal years 2017 and 2018, 59%% and 52.8%, respectively, of our revenues were derived from outside of North America. Our current international operations and our plans to further expand our international operations subject us to a variety of risks, including:

- increased exposure to fluctuations in foreign currency exchange rates;
- complexity in our tax planning, and increased exposure to changes in tax regulations in various jurisdictions in which we operate, which could adversely affect our operating results and frustrate our ability to conduct effective tax planning;

increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;

longer payment cycles and difficulties in enforcing contracts and collecting accounts receivable;

the need to localize our products and licensing programs for international customers;

lack of familiarity with and unexpected changes in foreign regulatory requirements;

the burdens of complying with a wide variety of foreign laws and legal standards;

compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended, or FCPA, particularly in emerging market countries;

import and export license requirements, tariffs, taxes and other trade barriers;

increased financial accounting and reporting burdens and complexities;

weaker protection of intellectual property rights in some countries;

multiple and possibly overlapping tax regimes; and

political, social and economic instability abroad, terrorist attacks and security concerns in general.

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As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these risks could harm our international operations and reduce our international sales, adversely affecting our business, results of operations, financial condition and growth prospects.

International operations in the insurance industry, in which a significant portion of our business is concentrated, are accompanied by additional costs related to adaptation to regulations in specific territories.

As we seek to expand the marketing and offering of our products into new territories, because insurance regulations vary by legal jurisdiction, the investment required to adapt our solutions to the legal and language requirements of such territories may prevent or delay us from effectively expanding into such territories. Such adaptation process requires the retention of new, additional skilled personnel with knowledge of the particular market and applicable regulatory regime. Such skilled personnel may not be available at a reasonable cost relative to the additional revenues that we expect to recognize in those territories, or may not be available at all.

Our international operations expose us to risks associated with fluctuations in foreign currency exchange rates that could adversely affect our business.

Most of our revenues are derived from international operations that are conducted in local currencies. Those operations are conducted in US dollars, GBP, Euro, New Israeli Shekels, or NIS, Indian rupee, or INR and Polish zloty, or PLN. In 2017 and 2018, our revenues were approximately 53% and 56.9%, respectively, in US dollars, with the remainder in the other currencies.

In some territories, like in Israel, India and Poland, our cost of operation in local currency is higher than the revenues derived from such operation. In other territories, our revenues are higher than our cost of operation in local currency. Because exchange rates between the NIS, GBP, Euro, INR and the PLN against the US dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations could negatively affect our revenue and profitability.

In certain locations, we engage in currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our financial position and results of operations. However, there can be no assurance that any such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, our financial position and results of operations could be adversely affected.

Our business may be materially affected by changes to fiscal and tax policies. Potentially negative or unexpected tax consequences of these policies, or the uncertainty surrounding their potential effects, could adversely affect our results of operations and share price.

As a multinational corporation, we are subject to income taxes, withholding taxes and indirect taxes in numerous jurisdictions worldwide. Significant judgment and management attention and resources are required in evaluating our tax positions and our worldwide provision for taxes. In the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting, and other laws, regulations, principles and interpretations. This may include recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, changes in foreign currency exchange rates, or changes in the valuation of our deferred tax assets and liabilities.

We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. If we experience unfavourable results from one or more such tax audits, there could be an adverse effect on our tax rate and therefore on our net income. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made. Additionally, we are subject to transfer pricing rules and regulations, including those relating to the flow of funds between us and our affiliates, which are designed to ensure that appropriate levels of income are reported in each jurisdiction in which we operate.

The recently enacted U.S. Tax Cuts and Jobs Act of 2017, or the Tax Act, enacted in December 2017, introduced significant changes to the U.S. Internal Revenue Code. The primary impact of the Tax Act on us was a reduction of our effective tax rate in the US. The final impact of the Tax Act may differ from the tax expense we incurred, due to, among other things, possible changes in the interpretations and assumptions made by us as a result of additional information, additional guidance that will be issued by the U.S. Department of Treasury, the IRS or other standard-setting bodies. There may be additional tax effects of the Tax Act that may impact our future financial statements upon finalization of law, regulations, and additional guidance and will be accounted for when such guidance is issued.

Risks Related to an Investment in our Common Shares

There is limited trading volume for our common shares, which reduces liquidity for our shareholders, and may furthermore cause the share price to be volatile, all of which may lead to losses by investors.

There has historically been limited trading volume in our common shares, both on the NASDAQ Capital Market and the TASE. While recently there has been improvement, the trading volume is still limited, which results in reduced liquidity for our shareholders. As a further result of the limited volume, our common shares have experienced significant market price volatility in the past and may experience significant market price and volume fluctuations in the future, in response to factors such as announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results and general conditions in the industry in which we compete.

We are a foreign private issuer under the rules and regulations of the SEC and are therefore exempt from a number of rules under the Exchange Act and are permitted to file less information with the SEC than a domestic U.S. reporting company, which reduces the level and amount of disclosure that you receive.

As a foreign private issuer under the Exchange Act, we are exempt from certain rules under the Exchange Act, including the proxy rules, which impose certain disclosure and procedural requirements for proxy solicitations. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. companies with securities registered under the Exchange Act; and are not required to comply with Regulation FD, which imposes certain restrictions on the selective disclosure of material information. In addition, our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our common shares. Accordingly, you receive less information about our company than you would receive about a domestic U.S. company, and are afforded less protection under the U.S. federal securities laws than you would be afforded in holding securities of a domestic U.S. company.

As a foreign private issuer, we are also permitted, and have begun, to follow certain home country corporate governance practices instead of those otherwise required under the Listing Rules of the NASDAQ Stock Market for domestic U.S. issuers. We have informed NASDAQ that we follow home country practice—in the Cayman Islands— with regard to, among other things, composition of our Board of Directors (whereby a majority of the members of our Board of Directors need not be "independent directors," as is generally required for domestic U.S. issuers), director nomination procedure and approval of compensation of officers. In addition, we have opted to follow home country law instead of the Listing Rules of the NASDAQ Stock Market that require that a listed company obtain shareholder approval for certain dilutive events, such as the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the Company, certain transactions other than a public offering involving issuances of a 20% or greater interest in the Company, and certain acquisitions of the stock or assets of another company. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on the NASDAQ Capital Market may provide our shareholders with less protection than they would have as stockholders of a domestic U.S. company.

Our controlling shareholder, Formula Systems (1985) Ltd., beneficially owns approximately 48.1% of our outstanding Common Shares and therefore asserts a controlling influence over matters requiring shareholder approval, which could delay or prevent a change of control that may benefit our public shareholders.

Formula Systems (1985) Ltd. beneficially owns approximately 48.1% of our outstanding Common Shares. As a result, it exercises a controlling influence over our operations and business strategy and has sufficient voting power to control the outcome of various matters requiring shareholder approval. These matters may include:

- the composition of our board of directors, which has the authority to direct our business and to appoint and remove our officers;
- approving or rejecting a merger, consolidation or other business combination;
- raising future capital; and
- amending our Articles, which govern the rights attached to our Common Shares.

This concentration of ownership of our Common Shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our Common Shares that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our Common Shares. This concentration of ownership may also adversely affect our share price.

Our U.S. shareholders may suffer adverse tax consequences if we are classified as a passive foreign investment company or as a "controlled foreign corporation".

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the average quarterly value of our assets (which may be measured in part by the market value of our Common Shares, which is subject to change) are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended, or the Code. Based on our gross income and gross assets, and the nature of our business, we believe that we were not classified as a PFIC for the taxable year ended December 31, 2018. Because PFIC status is determined annually based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for the taxable year ending December 31, 2019, or for any subsequent year, until we finalize our financial statements for that year. Furthermore, because the value of our gross assets is likely to be determined in large part by reference to our market capitalization, a decline in the value of our Common Shares may result in our becoming a PFIC. Accordingly, there can be no assurance that we will not be considered a PFIC for any taxable year. Our characterization as a PFIC could result in material adverse tax consequences for you if you are a U.S. investor, including having gains realized on the sale of our Common Shares treated as ordinary income, rather than a capital gain, the loss of the preferential rate applicable to dividends received on our Common Shares by individuals who are U.S. holders, and having interest charges apply to distributions by us and the proceeds of share sales. Certain elections exist that may alleviate some of the adverse consequences of PFIC status and would result in an alternative treatment (such as mark-to-market treatment) of our Common Shares. Prospective U.S. investors should consult their own tax advisers regarding the potential application of the PFIC rules to them. Prospective U.S. investors should refer to "Item 10.E. Taxation—U.S. Federal Income Tax Considerations" for discussion of additional U.S. income tax considerations applicable to them based on our treatment as a PFIC.

Certain U.S. holders of our Common Shares may suffer adverse tax consequences if we or any of our non-U.S. subsidiaries are characterized as a "controlled foreign corporation", or a CFC, under Section 957(a) of the Code. Certain changes to the CFC constructive ownership rules under Section 958(b) of the Code introduced by the TCJA *[assuming this has been defined in main doc previously]* may cause one or more of our non-U.S. subsidiaries to be treated as CFCs, may also impact our CFC status, and may adversely affect holders of our Common Shares that are United States shareholders. Generally, for U.S. shareholders that own 10% or more of the combined vote or combined value of our Common Shares, this may result in adverse U.S. federal income tax consequences and these shareholders may be subject to certain reporting requirements with the U.S. Internal Revenue Service. Any such 10% U.S. shareholder should consult its own tax advisors regarding the U.S. tax consequences of acquiring, owning, or disposing our Common Shares and the impact of the TCJA, especially the changes to the rules relating to CFCs.

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Risks Related to Our Israeli Operations and Our Status as a Cayman Islands Company

The tax benefits that are available to us require us to continue to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes

Certain of our Israeli subsidiaries were granted Approved Enterprise, or AE, status under the Israeli Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law. These subsidiaries elected the alternative benefits program, pursuant to which income derived from the AE program is tax-exempt for two years and enjoys a reduced tax rate of 10.0% to 25.0% for up to a total of eight years, subject to an adjustment based on the percentage of foreign investors' ownership. We were also eligible for certain tax benefits provided to Benefited Enterprises, or BEs, under the Investment Law. In May 2015, we notified the Israel Tax Authority that we apply the new tax Preferred Enterprise, or PFE, regime under the Investment Law instead of our AE and BE. Accordingly, we are eligible for certain tax benefits provided to PFEs under the Investment Law. If we do not meet the conditions stipulated in the Investment Law and the regulations promulgated thereunder, as amended, for the PFE, any of the associated tax benefits may be cancelled and we would be required to repay the amount of such benefits, in whole or in part, including interest and CPI linkage (or other monetary penalties). Further, in the future these tax benefits may be reduced or discontinued. If these tax benefits are reduced, cancelled or discontinued, our Israeli taxable income would be subject to regular Israeli corporate tax rates (25% in 2016, 24% in 2017 and 23% in 2018 and thereafter), which would harm our financial condition and results of operation. Additionally, if we increase our activities outside of Israel through acquisitions, for example, our expanded activities might not be eligible for inclusion in future Israeli tax benefit programs. See "Item 5. Operating and Financial Review and Prospects—Operating Results—Impact of Tax Policies and Programs on our Operating Results —Israeli Tax Considerations and Government Programs."

In the event of distribution of dividends from said tax-exempt income, the amount distributed will be subject to corporate tax in respect of the amount of dividend distributed (grossed up to reflect such pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate that would have otherwise been applicable on the AE/BE's income if such income had not been exempted from tax.

The Israeli government grants that our Israeli subsidiary has received require us to meet several conditions and restrict our ability to manufacture products and transfer know-how developed using such grants outside of Israel and require us to satisfy specified conditions.

One of our Israeli subsidiaries received grants in the past from the government of Israel through the National Technological Innovation Authority, or the Innovation Authority (formerly operating as Office of the Chief Scientist of the Ministry of Economy of the State of Israel, or the OCS), for the financing of a portion of its research and development expenditures in Israel with respect to our legacy technology. In consideration for receiving grants from the OCS, we are obligated to pay the Innovation Authority royalties from the revenues generated from the sale of products (and related services) developed (in whole or in part) using the OCS funds, in an amount that is up to 100% to 150% of the aggregate amount of the total grants that we received from the OCS, plus annual interest for grants received after January 1, 1999. We must fully and originally own any intellectual property developed using the OCS grants and any right derived therefrom unless transfer thereof is approved in accordance with the provisions of the Israeli Encouragement of Research, Development and Technological Innovation Law, 5744-1984, or the Innovation Law (formerly known as the Encouragement of Industrial Research and Development Law, 5744-1984, or the Research Law), and related regulations.

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When a company develops know-how, technology or products using grants provided by the Innovation Authority, the terms of these grants and the Innovation Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel. Even after the repayment of such grants in full, we will remain subject to the restrictions set forth under the Innovation Law, including:

Transfer of know-how outside of Israel. Any transfer of the know-how that was developed with the funding of the Innovation Authority, outside of Israel, requires prior approval of the Innovation Authority, and the payment of a redemption fee.

Local manufacturing obligation. The terms of the grants under the Innovation Law require that the manufacturing of products resulting from Innovation Authority-funded programs be carried out in Israel, unless a prior written approval of the Innovation Authority is obtained (except for a transfer of up to 10% of the production rights, for which a notification to the Innovation Authority is sufficient).

Certain reporting obligations. We, as any recipient of a grant or a benefit under the Innovation Law, are required to file reports on the progress of activities for which the grant was provided as well as on our revenues from know-how and products funded by the Innovation Authority. In addition, we are required to notify the Innovation Authority of certain events detailed in the Innovation Law.

Therefore, if aspects of our technologies are deemed to have been developed with OCS funding, the discretionary approval of an OCS committee would be required for any transfer to third parties outside of Israel of know-how or manufacturing or manufacturing rights related to those aspects of such technologies. We may not receive those approvals. Furthermore, the OCS may impose certain conditions on any arrangement under which it permits us to transfer technology or development out of Israel.

The transfer of OCS-supported technology or know-how outside of Israel may involve the payment of significant amounts, depending upon the value of the transferred technology or know-how, the amount of OCS support, the time of completion of the OCS-supported research project and other factors. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with OCS funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the OCS.

We received grants from the OCS prior to an extensive amendment to the Research Law that came into effect as of January 1, 2016, or the Amendment, which may also affect the terms of existing grants. The Amendment provides for an interim transition period (which has not yet expired), after which time our grants will be subject to terms of the Amendment. Under the Research Law, as amended by the Amendment, the Authority is provided with a power to modify the terms of existing grants. Such changes, if introduced by the Authority in the future, may impact the terms governing our grants.

Our shareholders may face difficulties in protecting their interests because we are incorporated under Cayman Islands law

Our corporate affairs are governed by our memorandum of association, or the Memorandum, our articles of association, or the Articles, the Companies Law (2016 Revision) of the Cayman Islands, or the Companies Law, and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under the laws of the Cayman Islands are not as clearly established under statutes or judicial precedent as in jurisdictions in the United States. Therefore, you may have more difficulty in protecting your interests than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less developed nature of Cayman Islands law in this area.

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting convened for that purpose. The convening of the meeting and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. A dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved.

When a takeover offer is made and accepted by holders of 90.0% of the shares within four months, the offeror may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of a corporation incorporated in a jurisdiction in the United States, providing rights to receive payment in cash for the judicially determined value of the shares. This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation or to require that the offeror give you additional consideration if you believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders. Our directors have discretion under our Memorandum and Articles to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors.

Service of process and enforcement of legal proceedings commenced against us in the United States may be difficult to obtain.

We operate under the laws of the Cayman Islands and a majority of our assets are located outside of the United States. In addition, most of our directors and executive officers reside outside of the United States. As a result, it may be difficult for investors to affect service of process within the United States upon us and such other persons, or to enforce judgments obtained against such persons in United States courts, and bring any action, including actions predicated upon the civil liability provisions of the United States securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts or jurisdictions located outside of the United States, rights predicated upon the United States securities laws.

Based on the advice of our Cayman Islands legal counsel, we believe no reciprocal statutory enforcement of foreign judgments exists between the United States and the Cayman Islands, and that foreign judgments originating from the

United States are not directly enforceable in the Cayman Islands. A prevailing party in a United States proceeding against us or our officers or directors would have to initiate a new proceeding in the Cayman Islands using the United States judgment as evidence of the party's claim. A prevailing party could rely on the summary judgment procedures available in the Cayman Islands, subject to available defenses in the Cayman Islands courts, including, but not limited to, the lack of competent jurisdiction in the United States courts, lack of due service of process in the United States proceeding and the possibility that enforcement or recognition of the United States judgment would be contrary to the public policy of the Cayman Islands.

Depending on the nature of damages awarded, civil liabilities under the Securities Act or the Exchange Act for original actions instituted outside the Cayman Islands may or may not be enforceable. For example, a United States judgment awarding remedies unobtainable in any legal action in the courts of the Cayman Islands, such as treble damages, would likely not be enforceable under any circumstances.

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Item 4. Information on the Company

A. History and Development of the Company.

Corporate Details

Our legal and commercial name is Sapiens International Corporation N.V., and we were incorporated and registered in Curaçao on April 6, 1990. In August 2018, following shareholder approval, we migrated the legal domicile of our company to the Cayman Islands and now operate as a public limited liability company under the provisions of the Companies Law (2016 Revision) of the Cayman Islands. We are registered as an Israeli company for tax purposes only. Our principal place of business is located at Azrieli Center, 26 Harokmim Street, Holon, 5885800, Israel, and our telephone number there is +972-3-790-2000. Sapiens Americas Corporation is our agent in the United States. Our World Wide Web address is www.sapiens.com. The information contained on that web site is not a part of this annual report. Except as described elsewhere in this annual report, we have not had any important events in the development of our business since January 1, 2018.

Capital Expenditures and Divestitures since January 1, 2016

In the third quarter of 2016, we acquired Maximum Processing Inc., or MaxPro, a privately-held company headquartered in Bradenton, Florida, with offices in Garner, North Carolina. MaxPro is the provider of the Stingray System, a P&C insurance administration suite targeted towards the tier 4-5 U.S. market, as well as managing general agents, or MGAs, third-party administrators, or TPAs, and insurance brokers. We paid $4.3 million in cash for this acquisition (including $1.5 million that we placed in escrow at the closing).

In the third quarter of 2016, we acquired 4Sight Business Intelligence Inc., or 4Sight, a provider of business intelligence reports that is based in Austin, Texas. 4Sight offers insurance-specific business intelligence, or BI, solutions, including 4SightBI, a P&C-specific, off-the-shelf business intelligence (BI) product. We paid $330,000 in cash for this acquisition.

The seller of 4Sight, who was also one of the sellers of MaxPro, has the right to receive a total amount of approximately $5.5 million, subject to certain criteria which include, among others, continued employment criteria. For further information, please see Note 1(e) to our consolidated financial statements included in Item 18 of this annual report.

In the first quarter of 2017, we acquired StoneRiver, a US-based provider of a wide range of technology solutions and services to insurance carriers, agents, and broker-dealers, whose product groups encompass P&C solutions, Life solutions, workers compensation, reinsurance solutions and F&C for all major business lines. The acquisition will enable us to expand the range of solutions and services that we offer in North America. We paid approximately $101 million in cash, subject to certain adjustments based on working capital, transaction expenses, unpaid debt and certain litigation matters. For further information, please see Note 1(b) to our consolidated financial statements included in Item 18 of this annual report.

In the fourth quarter of 2017, we acquired KnowledgePrice.com, a Latvian company that specializes in digital insurance services and consulting. This acquired entity will join our Digital Division, which focuses on digital and business intelligence services and solutions, including portal and digital distribution offerings to customers worldwide. The total purchase price was approximately €5,840,500, out of which €3,100,000 was paid at closing and the remainder is subject to earn-outs based on the revenues of KnowledgePrice.com following the closing. For further information, please see Note 1(d) to our consolidated financial statements included in Item 18 of this annual report.

In the first quarter of 2018, we acquired Adaptik, a New Jersey company engaged in the development of software solutions for P&C insurers, including policy administration, rating, billing, customer management, task management and product design. The total purchase price was approximately $18.2 million in cash, subject to adjustment, and about $3.5 million is subject to earn out-based specific criteria and continued employment of founders.

Our principal capital expenditures during the last three years related mainly to the purchase of computer equipment and software for use by our subsidiaries. Our capital expenditures totaled approximately $4.7 million in 2016, $2.6 million in 2017 and $1.9 million in 2018.

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B. Business Overview.

Sapiens is a leading global provider of software solutions for the insurance industry. Our extensive expertise is reflected in our innovative software platforms, suites, solutions and services for property & casualty (P&C); life, pension & annuity (L&A); reinsurance; financial and compliance (F&C); workers' compensation (WC); and financial markets. Our company offers a full digital suite that facilitates an innovative, holistic and seamless digital experience for carriers, agents, customers and assorted insurance personnel, across multiple devices and technologies. Sapiens' offerings enable our customers to effectively manage their core business functions, including policy administration, claims and billing, and to offer support during an insurer's journey to becoming a digital insurer. Our portfolio also covers underwriting, illustration and electronic application.

Sapiens also supplies a complete reinsurance offering for providers and a decision management platform tailored to a variety of financial services providers, so business users can quickly deploy business logic and comply with policies and regulations across their organizations.

Our platforms possess modern, modular architecture and are digital-driven. They empower customers to respond to the rapidly changing insurance market and frequent regulatory changes, while improving the efficiency of their core operations. These process enhancements increase revenue and reduce costs.

2018 was a year of moderate growth for Sapiens, while building the foundation for growth for 2019 and beyond. As described further below, in 2018, the Company acquired Adaptik, a Pennsylvania-based firm that offers P&C insurers policy administration and billing capabilities for commercial, personal, specialty and workers' compensation lines of business. The acquisition was another step in Sapiens' journey to offer the U.S. insurance market a modern, modular, fully integrated property and casualty insurance platform.

In February 2017, Sapiens acquired StoneRiver, a U.S. based company that offered a reach product portfolio that was comprised of claims, billing, rating, underwriting, illustration, reinsurance and F&C solutions for all major insurance business lines, across both P&C and L&A. StoneRiver's rich set of solutions complements Sapiens' offerings and has helped Sapiens accelerate its growth in the U.S. market, as well as globally.

In December 2017 Sapiens expanded its Digital division's capabilities through the acquisition of KnowledgePrice.com (or KnowledgePrice), a technology specialist with expertise in digital insurance services and consulting. The expanded Digital division will create innovative offerings and provide full support during customers' digital journeys.

Privately-held KnowledgePrice employed digital insurance technology experts and supplied services to leading insurance providers in the UK and Europe. KnowledgePrice personnel joined the Sapiens Digital division – which focuses on digital and business intelligence (BI) services and solutions, including customer and agent portal solutions and digital distribution offerings to customers worldwide. Former KnowledgePrice personnel now staff a Sapiens center for excellence for digital engagement services.

In March 2018, Sapiens also announced the acquisition of Adaptik, a North American (NA) P&C solution provider. This acquisition better positioned Sapiens to provide North American P&C carriers with an enhanced and complete platform, which has improved Sapiens' competitive position and enabled the Company to increase its market share in the North American insurance market. The acquisition of Adaptik and StoneRiver (in February 2017) created synergy with Sapiens' strong capabilities, and enable us to offer a truly modern, comprehensive property and casualty digital insurance platform to the U.S. market. Sapiens now offers an innovative P&C digital insurance platform that combines three powerful core components: Sapiens PolicyPro for Property & Casualty (formerly called Adaptik Policy), Sapiens BillingPro for Property & Casualty (formerly known as Adaptik Billing) and Sapiens ClaimsPro for Property & Casualty (formerly called StoneRiver Stream Claims), accompanied by Sapiens' existing solutions for data and analytics, digital engagement and distribution, and the cloud.

Sapiens' enhanced managed services offerings and cloud deployment have been adopted by several major customers and are expected to grow in the coming years. By allowing Sapiens to manage a substantial part of their ongoing IT operations, customers can focus on their core insurance competency and business.

In February 2019, Sapiens announced a complete rebranding that highlights our evolution to a unified global provider of insurance software solutions. The new brand identity marks Sapiens' growth into a one-stop-shop for insurance software solutions. Sapiens has renamed its entire product portfolio and changed the look-and-feel and contents of all its collateral, and launched a new website. Our new master brand architecture and descriptive solution names quickly communicate our offerings' main functions and frame Sapiens as a unified company (following the acquisitions described above). The updated look features our human-to-human (H2H) approach, reflecting the long-term partnerships we have with customers and employees and that is reflected in the entirely new marketing communications suite we have developed.

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Software Solutions

Our software portfolio is comprised of:

Property & Casualty – a comprehensive software platform, suite and solutions supporting a broad range of business lines, including personal, commercial and specialty lines, as well as reinsurance and workers' compensation (see below).

Our portfolio includes Sapiens Platform for Property & Casualty (which is comprised of core, data and digital solutions) and two core suites: Sapiens CoreSuite for Property & Casualty (for North America) and Sapiens IDITSuite for Property & Casualty (for EMEA and APAC). The core suites are offered as a full suite, or insurers can choose standalone components: policy, billing and claims. Sapiens CoreSuite is based on technology acquired from Adaptik and StoneRiver, while the IDITSuite technology evolved from our previous Sapiens IDIT offering. Smaller, more agile insurance providers can choose Sapiens Stingray for Property & Casualty.

- **Life, Pension and Annuities** – a comprehensive software platform, suite and complementary solutions for the management of a diversified range of products for life, pension and annuities. Our portfolio includes the Sapiens Platform for Life, Pension & Annuities; Sapiens CoreSuite for Life, Pension & Annuities (formerly called Sapiens ALIS), Sapiens UnderwritingPro for Life & Annuities (formerly called StoneRiver LifeSuite), Sapiens ApplicationPro for Life & Annuities (formerly called StoneRiver LifeApply), Sapiens IllustrationPro for Life & Annuities (formerly called StoneRiver LifePortrait) and Sapiens ConsolidationMaster for Life & Pension (formerly called Sapiens Closed Books).

Digital – Sapiens provides a full digital insurance suite that is based on an enablement platform that digitalizes insurance carriers' business and helps them transform. The suite is comprised of a set of integrative offerings, including: Sapiens DigitalSuite (formerly called Sapiens Digital Suite), which offers an end-to-end, holistic and seamless digital experience for customers, agents, brokers, customer groups and third-party service providers. The suite is pre-integrated with Sapiens core suites and is comprised of the Sapiens DigitalHub (API Layer and Digital Studio) that enables openness and connectivity with partners; Sapiens AgentConnect (formerly Sapiens PORTAL) and Sapiens CustomerConnect (formerly Sapiens PORTAL) portals, specifically designed for the life, pension and annuities, property and casualty, and additional insurance markets; and the Sapiens PartnerHub, which makes third-party technology and insuretech solutions available to insurers and their customers. Sapiens also offer Sapiens Intelligence or Sapiens IntelligencePro (advanced analytics).

Reinsurance – complete reinsurance software solutions for full financial control and auditing support. Our portfolio includes: Sapiens ReinsuranceMaster, Sapiens ReinsurancePro and Sapiens Reinsurance GO.

Workers' Compensation – Sapiens' workers' compensation offerings handle comprehensive policy/billing and claims needs. Our solution portfolio includes Sapiens Platform for Workers' Compensation, Sapiens CoreSuite for Workers' Compensation (formerly called StoneRiver PowerSuite), Sapiens PolicyPro for Workers' Compensation and Sapiens ClaimsPro for Workers' Compensation. Providers looking to preserve greater agility may select Sapiens GO for Workers' Compensation (formerly called StoneRiver CompSuite), which is comprised of Sapiens PolicyGo for Workers' Compensation, Sapiens ClaimsGo for Workers' Compensation and Sapiens Connect for Workers' Compensation.

Financial & Compliance – we offer financial & compliance solutions comprised of both annual statement and insurance accounting software. This software includes Sapiens FinancialPro (formerly called StoneRiver PRO), Sapiens Financial GO (formerly called StoneRiver PTE), Sapiens StatementPro (formerly called StoneRiver eFreedom), Sapiens CheckPro (formerly called StoneRiver Power2Pay) and Sapiens Reporting Tools.

Decision Management – Sapiens Decision is an enterprise-scale platform that enables institutions across verticals to centrally author, store and manage all organizational business logic. Organizations use it to track, verify and ensure that every decision is based on the most up-to-date rules and policies. Our Decision management offerings target the banking and insurance markets (P&C and life).

Technology-Based – tailor-made solutions (unrelated to the insurance or financial services market) based on our Sapiens eMerge platform, which provides end-to-end, modular business solutions, ensuring rapid time to market.

Services

Our services modernize and automate processes for insurance providers and financial institutions around the globe, helping to create greater organizational efficiencies, reduce costs and provide a better end user experience. They can be divided into three main categories: **program delivery**, **business services** and **managed services** (our various methodologies are applied across the categories).

Program delivery includes:

- Project and program management
- Training
- Testing
- Migration
- Implementation and integration

Business services are comprised of:

- Business transformation – planning and strategy, business process evaluation, training and change management
- Digital transformation – business model and processes transformation and data management consolidation, as well as data migration
- User acceptance testing (UAT)

System integration

Managed services include:

Hosting services

Application and system management

Ongoing production support

Sapiens has partnered with Microsoft Azure to offer its policy administration systems and accompanying services over private and public (single tenant) clouds. The company maintains an agnostic approach that also utilizes Amazon Web Services (AWS). Sapiens' cloud deployment includes full infrastructure for operations, plus the option of choosing cloud-related managed services delivered by Sapiens' experienced professional services team.

Methodologies:

Sapiens offers various delivery methodologies, including waterfall and Agile (and a combination of the two). We also provide delivery tools and delivery performance indicators.

Built on a solid foundation of insurance domain expertise, proven technology and a history of successful deployments, our organization assists clients in identifying and eliminating IT barriers to achieve business objectives.

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Our Marketplace and its Needs

Our Target Markets

We operate in a large market undergoing significant transformation. According to the Gartner report “Forecast: Enterprise IT Spending for the Insurance Market, Worldwide, 2016-2022, 4Q18 Update” (a market statistics research report by Gartner, a research and consulting firm, written by James Ingham, Venecia K. Liu and Rika Narisawa that was published on February 10, 2019, and which we refer to herein as the Gartner report), Gartner forecasts that the global IT spending insurance market will grow by 3.7% in 2019, to $220.7 billion in U.S. dollars (on a constant-currency basis). This industry is forecast to reach nearly $244 billion by 2022, growing at a 3.6% compound annual growth rate (CAGR) for the period from 2017 through 2022.

We believe that our current total addressable market for core insurance software solutions and the accompanied point solutions is approximately $40 billion, which we expect will grow as a result of insurance carriers’ and financial institutions’ need to address, via modern software solutions from external providers, the operational challenges presented by the inefficiency of their legacy core systems. Legacy systems reflect technical and functional limitations that adversely impact carriers’ ability to swiftly launch new, innovative products that satisfy their customers’ changing needs and preferences.

By slowing down carriers’ business and geographic expansion, legacy systems create operational inefficiencies that result in increased business risk and financial costs. They are also a barrier for the adoption of digital capabilities, due to their inability to communicate and interact with innovative digital solutions. Today’s insurance providers are looking for more than just the traditional “core” capabilities. They seek insurance platforms with a wider range of capabilities, including full digitalization.

Our customers are operating in a constantly evolving regulatory environment. Often their legacy systems simply do not support new regulatory requirements and put carriers at risk of costly non-compliance. There is also a strong trend of shifting attention to the end-customer experience and activities, with a focus on digital operations. Many insurers are currently unable to provide the type of quality digital experience that their customers are already enjoying across most other verticals, and customer satisfaction is only one of the many recognized benefits of going digital. This can only be supported via increased usage of data for decision-making, risk analysis, customer evaluation and rating, which requires a streamlined data flow and easy access to information from multiple sources.

We believe these challenges will accelerate the shift from spending on legacy systems to new vendor software solutions. It is also Sapiens’ view that these challenges are too difficult to overcome via “in-house” systems and that the majority of insurers will turn to external software vendors, such as Sapiens.

Property & Casualty Market

Property & casualty insurance protects policyholders against a range of losses on items of value. P&C insurance includes the **personal segment**, which is insurance coverage for individuals, with products such as motor, home, personal property and travel; the **commercial segment**, covering aspects of commercial activity, such as commercial property, car fleets and professional liability; and **specialty lines**, covering unique domains, such as marine, art and credit insurance. This market also includes workers' compensation for market carriers, administrators and state funds.

During the past few years, the P&C market has been characterized by a fast rate of digital adoption. New business and technology models are adopted rapidly, to launch innovative business offerings. This requires advanced software solutions, both on the "core" layer, which needs to be flexible and open, and with the variety of digital tools addressing customer experience needs.

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Life, Pension and Annuity Markets

Life, pension & annuity providers offer their customers a wide range of products for long-term savings, protection, pension and insurance. They assist policyholders with financial planning through life insurance, medical and investment products. Their products can be classified into several areas, primarily investment and savings, risk and protection, pension and health-related products. These products can be targeted to individuals, as well as group- and employee-benefit types of products.

The products in this field are long-term in nature. When insurance providers consider purchasing new platforms from Sapiens, the decision is typically slower and involves multiple decision-makers throughout the organization.

Digital Market

Insurance carriers risk losing their customers if they do not provide the type of digital experience that all of us have come to expect from the retailers and service providers we interact with daily. Agents, brokers and other channel and service providers also require a powerful digital ecosystem to capably carry out their crucial tasks.

It is not enough to simply provide a portal to offer today's consumers the online presence they demand, or to work with an isolated analytics system to parse data. A big step up is needed via an all-encompassing digital approach featuring integrated components functioning at their highest levels and complementing each other.

Reinsurance Market

Reinsurance is insurance that is purchased by an insurance company (ceded reinsurance) from another insurance company (assumed reinsurance) as a means of risk management. The reinsurer and the insurer enter into a reinsurance agreement, which details the conditions upon which the reinsurer would pay the insurer's losses. The reinsurer is paid a reinsurance premium by the insurer and the insurer issues insurance policies to its own policyholders. The insurer must maintain an accurate system of records to track its reinsurance contracts and treaties, to avoid claims leakage.

Workers' Compensation

Workers’ compensation is one of the largest lines of business in the property and casualty (P&C) industry in North America. But future profitability is getting harder to maintain, with medical and indemnity costs per lost time claim increasing at rates greater than inflation. Insurance organizations require technology solutions that can adapt quickly to business and market conditions, offering high levels of accuracy and efficiency.

Financial & Compliance Market

Financial professionals face overwhelming challenges as they struggle to satisfy ever-changing regulatory requirements, while meeting the demands of managerial reporting. The move towards globalization has introduced new currencies, and CEOs need more performance data for strategic decision-making. Organizations require one partner to optimize efficiencies with solutions that can be implemented quickly.

Decision Management Markets

Increasing competition, regulatory burden, customer experience expectations and the proliferation of digital and product innovation requirements have necessitated a shift in thinking and approach among organizations across verticals. By replacing conventional policy and process management with the discipline known as “decision management,” financial institutions are bridging the gap between business and IT, by enabling business users to rapidly frame requirements in formal business models that can be easily understood by all stakeholders.

The decision management processes affect overall corporate performance, including its impact on customers and competitors. Decision management systems are a key performance component of every financial services organization, as they help the organization define, avoid and hedge financial risk.

Needs of our Target Markets

Large insurance and financial organizations must constantly invest in their IT systems to respond to key market drivers. They require the ability to:

Satisfy today’s sophisticated, tech-savvy and demanding end-customers – who demand the type of instant, personalized service they enjoy via Facebook or Amazon – via digitalization and innovative initiatives, providing a stronger customer experience and engagement.

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Use advanced technologies, such as artificial intelligence (AI) and machine learning, to facilitate, improve and automate traditional insurance processes.

Provide innovative business models, based on technology capabilities and digital operation (such as a portal, a web-based acquisition process, advanced analytics, customer engagement platforms and the usage of data sources – including wearables, the Internet of Things (IoT) and robo-advice.

Respond to complex and evolving regulatory standards, such as Solvency II, IFRS 17, Dodd-Frank legislation, GDPR, etc.

Support internal customers' growth and operations. This includes reducing the time to market of new products, expanding into new geographies, reducing costs and streamlining operations.

Rapidly launch new products and propositions to the market, within a short timeframe and using existing, pre-defined capabilities.

Specific Needs of the Insurance Markets

The insurance market is a large, complex and highly regulated environment. Insurance carriers operate in a super-competitive and quickly evolving market, which necessitates differentiating their value propositions. Additionally, carriers operate under a rigid regulatory regime that demands fast compliance. The insurance market is going through a rapid evolution process, driven by new technologies, digital capabilities and new business models, all enabled by new technologies.

To efficiently manage their operations, insurance carriers require IT platforms that enable rapid introduction of changes via configurable, user-driven activities, integration with internal and external systems, control and auditing of employees' work, support for omni-channel distribution and clear visibility into the carrier's business operations, through streamlining and intelligent usage of data.

To compete in the rapidly-changing environment, and win the competition for end-customers, insurance carriers require a coherent digital proposition, allowing them to better interact with their customers in a digital and omni-channel manner. They are increasingly using robotics, predictive analytics, AI and machine learning to automate processes and obtain stronger business insights. The cloud can also be utilized for improved operations and scale.

Insurance carriers are experiencing substantial operational challenges due to the inefficiency of their legacy policy administration systems and their lack of digitalization. These legacy systems, which include both technical and functional limitations, acutely impact carriers' ability to cope with growing challenges, such as the need for innovation, the shift of power to the consumer, and the dynamic and constantly changing regulatory environment.

We believe the following are key considerations for insurance carriers when they think about upgrading their legacy systems:

Dynamic business environment with constantly changing regulations – many insurance carriers still use outdated legacy systems that are costly and time-consuming to modify or upgrade. This has prevented insurance carriers from innovating and growing. Carriers who use legacy systems may find that it is difficult for them to modify existing products, introduce new products and reach untapped market segments. Varied and frequently changing global regulatory requirements require specialized data and business rules, which makes change implementation particularly challenging.

Change in end-consumers' behavior and the shift of power to consumers – insurance carriers must rapidly adapt to the shifting needs and behaviors of consumers, including the types and terms of insurance products offered, and how consumers access information. Insurance carriers require systems with integration capability and support for multi-channel distribution, so they can reach their clients' customers and partners using multiple methods, including social media, across devices.

A need to improve operational efficiency and reduce total cost of ownership – Sapiens believes that a majority of insurance carriers are still using inefficient and outdated processes that do not automate operations and workflows, and thus don't offer efficient process management. Many of these processes may have high error rates. Additionally, the ongoing maintenance of legacy systems is expensive and technically difficult. A specialized IT staff with the requisite skills and experience needed to maintain these systems is difficult to find and then eventually replace. Insurers seek systems that are modern, digital, automated, efficient and easy to maintain, and can lower costs over the long term.

Increasing global and multi-national operation – a rising number of insurers are accelerating their growth initiatives through global acquisitions. These insurers seek a single provider who can deliver solutions that will be used across markets, combining the support of local regulatory requirements and specific customer needs, while driving a generic corporate business approach and strategy across the globe, reducing costs and overhead.

Going digital – digitalization holds significant potential for insurers, but only if they manage to efficiently digitalize their operations, support multi-channel distribution and ensure that agents and customers are able to access real-time, accurate data at any time and from anywhere – including tablets and other mobile devices.

Exploring new business models and innovative propositions – carriers are increasingly looking to: adopt and use new technologies and innovative capabilities; bring modern and differentiating propositions to the market, reduce cost, enhance and speed customer engagement, and improve their business parameters and KPIs.

Business Decision Management Market Needs

Many large organizations, particularly in the financial services market, must comply with complex regulations. They operate in highly competitive markets that require quick responses. Business logic drives most of the financial services transactions and is the backbone of an organization's policies and strategies, and its ability to successfully operate.

To achieve efficiency, business owners must assume ownership of the business logic and possess the ability to define and modify it, standardize it and reuse it across the organization. Business logic is defined today by business owners and compliance officers, but IT departments translate the requirements into code. This process raises several key challenges: the result does not always accurately reflect the business requirements; the new requirements might conflict with, or override, previous requirements; and the entire process is not fully audited. These gaps often create an inefficient and risk-exposed organization.

Sapiens' Software Solutions

Overview

Sapiens is a leading global provider of software solutions for the insurance industry. By enabling our insurance and financial services customers to digitize their business and be more agile in the face of changing business environments, we help them take advantage of powerful current trends – such as the Internet of Things, artificial intelligence, machine learning, customer engagement, chat bots, etc. – while simultaneously reducing IT costs.

We offer our insurance customers a range of packaged software solutions that are:

Digital – revealing their history and anticipating their future needs, while facilitating easy engagement across preferred interaction channels and multiple devices.

Data-driven – based on set of data analysis tools, from data-warehouse and reporting, through business intelligence and analytics, to predictive and advanced analytics – so our customers can become a data-driven operation.

Highly automated – by using various technologies, from decision to robotics, we improve efficiency and offer agile customer engagement.

Comprehensive and functionally-rich – support for insurance standards, regulations and processes, by providing field-proven functionality and best practices.

Customizable & configurable – easily matches our customers' specific business requirements. Our flexible architecture and configurable structure allow quick functionality augmentation that permits our platform to be used across different markets, unique business requirements and regulatory regimes. We utilize our knowledge and extensive insurance best practices and feature business-led configuration.

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Open architecture and insuretech ecosystem – provides easy integration to any external application under any technology, allowing streamlined connectivity to all satellite applications. This enhances the digital experience and omni-channel distribution, while maintaining total platform independence and system reliability. Easy interaction with various insuretech companies providing point-solutions that can be consumed by our platforms is enabled.

Component-based and scalable – allows our customers to deploy platforms and solutions in a phased and modular approach, reducing risk and harm to the business, while supporting the growth plans and cost efficiency of the organization.

Our packaged software solutions enable:

Rapid deployment of new insurance products – via configurable software, which creates a competitive advantage in all the insurance markets we serve.

Improvement of operational efficiency and reduction of risk – full insurance process automation, with configurable workflows, audit and control, streamlined insurance practices, and simple integration and maintenance.

Reduction of overhead for IT maintenance – easy-to-integrate solutions with flexible and modern architecture, resulting in lower costs for ongoing maintenance, modifications, additions and integration.

Enhanced omni-channel distribution and focus on the customers – event-driven architecture, a proactive client management approach, rapid access to all levels of data, and a holistic view of clients and distributors.

Cloud-first as a preferred deployment model – with the flexibility to also provide an on-premises deployment approach.

Support for digitalization –insurers and financial services institutions who manage to efficiently digitalize their operations, support omni-channel distribution and ensure that agents and customers are able to access real-time, accurate data at any time and from anywhere – including tablets and mobile devices – will unlock massive potential.

Managed services – offering our customers access to a long-term engagement by providing comprehensive support for their daily IT operations, while allowing them to focus on their business KPIs.

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Sapiens Property & Casualty Solutions

Sapiens Platform for Property & Casualty

The Sapiens Platform for Property & Casualty is an end-to-end, cloud-based platform with advanced digital capabilities. It can be implemented as a pre-integrated platform, or as standalone modules. The platform addresses all P&C carrier needs across all lines of business and distribution channels, offering a wealth of digital features. It is comprised of core (policy, billing and claims), data (advanced analytics) and digital (a full suite) solutions.

Sapiens offers two core suites, based on region:

Sapiens CoreSuite for Property & Casualty (North America)

Sapiens CoreSuite for Property & Casualty is comprised of three fully integrated, core components that can also be deployed stand-alone: Sapiens PolicyPro, Sapiens BillingPro and Sapiens ClaimsPro.

CoreSuite is pre-integrated with additional components that can be selected, including business intelligence, reinsurance and portal solutions (customer and agent), as well as various interfaces.

This modular, automated, highly customizable suite offers a single platform for personal, commercial and specialty lines of business (LoBs). This increases organizational efficiency by reducing manual effort, generates competitive advantages and saves costs.

Sapiens IDITSuite for Property & Casualty (EMEA & APAC)

The Sapiens IDITSuite for Property & Casualty (formerly called Sapiens IDIT) is a component-based, standalone software solution suite that offers policy, billing and claims and forms the core of the Sapiens Platform for Property & Casualty. IDITSuite supports all end-to-end core operations and processes for the non-life P&C market from inception, to renewal and claims. This pre-integrated, fully digital suite offers customer and agent portals, business intelligence and more. IDITSuite enables insurers to expand their offerings by testing new lines of business, products and services using our flexible product factory.

The suite is modular, or can integrate with your ecosystem's components. IDITSuite for Property & Casualty includes multiple lines of business in one policy for multiple insured objects and assets. It can support corporate agreements and master policy structures. IDITSuite is designed with growth and change in mind, with extensive multi-company, multi-branding, multi-currency and multi-lingual capabilities. The IDITSuite management system is built on open technology and can be used on desktops, laptops and tablets, as well as smartphones (requiring a mobile portal).

Sapiens Policy Administration Solutions

The Sapiens' policy solutions for property & casualty come pre-integrated with the core system. They are easily integrated with existing and external systems and applications. The solutions manage the end-to-end policy administration lifecycle of an insurance contract, from initial quote, through rating and policy issuance. They also feature a complete range of policy issuance and amendment capabilities. Agents, underwriters and customers use the solutions to quote, issue and administer policies. The offerings provide comprehensive policy lifecycle support for all P&C lines of business.

Sapiens Billing Solutions

The Sapiens' billing solution for P&C enables carriers, MGAs and brokers to manage the full lifecycle of premium services, taxes and fees, along with commission billing, collection and disbursements. P&C carriers can integrate with third-party systems and data repositories, enjoy best-in-class usability and automate processes throughout the billing lifecycle.

Sapiens Claims Solutions

Sapiens' claims solutions for property & casualty provide simplified management and automated control of claims management handling and the settlement process. They offer intelligent, rules-driven workflow with effective claim assignment, ensuring faster cycle times, as well as rules-driven automatic claims payment.

Sapiens Stingray for Property & Casualty

Sapiens Stingray for Property & Casualty is a complete solution with quick implementation for all P&C insurance lines, providing a complete core processing solution right out of the box. Its modular software components are designed with flexibility in mind. This solution is customizable and well-suited for tiers 4-5.

P&C Digital Offerings

The Sapiens DigitalSuite (formerly known as Sapiens Digital Suite) offers an end-to-end, holistic and seamless digital experience for P&C customers, agents, brokers, customer groups and third-party service providers. The suite is pre-integrated with Sapiens' P&C core and is comprised of digital engagement and digital enablement and API layer components. The suite is cloud-based.

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Sapiens Life, Pension & Annuity Solutions

Sapiens Platform for Life, Pension & Annuities

The Sapiens Platform for Life, Pension & Annuities is a modern, digital insurance platform that includes core, data and digital solutions. With the ability to deploy its offerings as a complete platform, or as standalone modules, Sapiens can address life providers' needs across all their lines of business and distribution channels. Our mature platform is cloud and API-based, and features a strong core and advanced analytics, as well as data enablement and full digital engagement capabilities.

Sapiens CoreSuite for Life, Pension & Annuities

Sapiens CoreSuite for Life, Pension & Annuities (formerly called Sapiens ALIS) is designed to provide excellence in the administration of insurance business, facilitate digital transformation and fast time-to-value for digital strategies, and create greater efficiency via legacy consolidation. It offers insurers:

A single platform for individual and group business

Transformation, enablement and execution for digital strategies

Greater efficiency via improved automation, user experience and system consolidation

Single Platform

The Sapiens CoreSuite software suite supports the end-to-end administration of group and individual life, annuities, pension and investment business in a single system. The suite offers a 360-degree view of the customer from their policy administration system, across all distribution channels and communication streams.

Existing System Consolidation

Many insurers still use systems developed decades ago that cannot support today's regulatory changes, digital marketplace and demanding customers. Too many manual processes can lead to errors that impact customer experience. Our unique conversion approach reduces the risks involved in migrating from existing legacy systems.

Sapiens UnderwritingPro for Life, Pension & Annuities

Sapiens UnderwritingPro for Life, Pension & Annuities (formerly called StoneRiver LifeSuite) is a web-based solution for automated underwriting and new business case management that is part of Sapiens' core suite. It speeds new business processes for insurance carriers and their channels, offering an intuitive user interface with critical updates and task assignments provided on a real-time dashboard. Sapiens UnderwritingPro enables underwriters and case managers to work on multiple cases simultaneously.

Sapiens ApplicationPro for Life & Annuities

Sapiens ApplicationPro for Life & Annuities (formerly known as StoneRiver LifeApply) is web-based insurance application software that provides carriers with the choice of a standalone eApplication system, or a more comprehensive solution that seamlessly integrates with Sapiens IllustrationPro for Life & Annuities (formerly called StoneRiver Life Portraits) and Sapiens UnderwritingPro for Life & Annuities (formerly StoneRiver LifeSuite). Sapiens ApplicationPro is robust electronic application software that helps carriers address critical business drivers, such as decreasing time-to-issue and reducing policy acquisition costs, all in an extremely intuitive and easy-to-use package.

Sapiens IllustrationPro for Life & Annuities

Sapiens IllustrationPro for Life & Annuities (formerly called StoneRiver Life Portraits) is a point-of-sale solution, offering responsive product illustrations from any location in an electronic environment, with internet and desktop support. ACORD®-compliant, it offers straight-through processing, from point-of-sale to application e-submission, supported by a needs analysis suite. IllustrationPro explains complex products in a compelling way. Its powerful calculation engines handle the most complex product illustrations, including the appropriate historical and hypothetical references.

Sapiens ConsolidationMaster for Life & Pension

Sapiens ConsolidationMaster (formerly called Sapiens Closed Books) is a purpose-built, end-to-end, legacy, portfolio-focused system with a unique migration methodology that deals with “dirty” data. The solution has over 500 product templates capable of supporting the compliant administration of legacy products in any language and regulatory jurisdiction. ConsolidationMaster is designed to significantly cut the costs that are commonly associated with legacy platforms.

Digital Transformation

Sapiens CoreSuite features full pre-integration to the Sapiens DigitalSuite and digital capabilities have been enhanced via adaptors. This facilitates digital transformation and fast time-to-value for digital strategies. It enables life carriers to become engaged, agile organizations with increased sales opportunities. By integrating CoreSuite with our advanced analytics solution and data warehouse, we can quickly generate actionable insights, self-service business intelligence and data discovery capabilities, across all mobile devices (and in the cloud).

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Sapiens Digital Offerings

Sapiens Intelligence

Sapiens Intelligence is an innovative business intelligence solution specifically designed for the insurance market. The solution is based on the advanced technology of SAP's analytics platform and on insights from scores of customers in production. It empowers business users to quickly and easily draw business conclusions and insights from raw data, via self-service analytics and easy-to-use, modern tools. Sapiens Intelligence drives analytics adoption across the organization with compelling, insightful dashboards and apps.

Sapiens IntelligencePro

Sapiens IntelligencePro (formerly 4SightBI) suite is a comprehensive, affordable BI solution, with over 100 pre-configured reports, dashboards, scorecards, ad hoc reporting and hundreds of analytics. With "what-if?" capabilities and ease-of-use in underwriting, claims, billing, management, reinsurance and other areas, carriers can generate actionable insights and heal their pain-points.

Sapiens DigitalSuite

Sapiens DigitalSuite offers an end-to-end, holistic and seamless digital experience for customers, agents, brokers, customer groups and third-party service providers. The suite is pre-integrated with Sapiens' core suites and is comprised of Sapiens DigitalHub (API Layer and Digital Studio) that enables openness and connectivity with partners; Sapiens AgentConnect (formerly Sapiens PORTAL) and Sapiens CustomerConnect (formerly Sapiens PORTAL) portals, specifically designed for the life, pension and annuities (L&A), property and casualty (P&C), and additional insurance markets; and Sapiens PartnerHub. The suite is cloud-based.

Sapiens CustomerConnect

Sapiens CustomerConnect (formerly called Sapiens PORTAL) is a modular, highly innovative portal solution specifically designed for the life, pension & annuity (L&A) and property and casualty (P&C) insurance markets. It is a direct-to-consumer application, enabling insureds to buy policies, view the statuses of their policies and accounts, and issue claims. Many other transactions can be performed that save both consumers and insurers time, and reduce costs, while increasing overall consumer satisfaction.

Sapiens AgentConnect

Sapiens AgentConnect (formerly called Sapiens PORTAL) is a modular, highly innovative portal solution specifically designed for the life, pension & annuity (L&A) and property & casualty (P&C) insurance markets. It empowers agents with full lifecycle enablement, including the ability to manage their pipeline, sell policies to their consumers and provide top-level customer service in real-time. Agents can also see a holistic view of their business performance overall and benefit from full access to all their remunerations, payments, commission transactions and statements.

Sapiens DigitalHub

Sapiens DigitalHub (API Layer and Digital Studio) facilitates an open-communication, API-based platform that enables carriers to interact with insuretech companies, ecosystem technology providers and business partners. By enabling seamless interaction with any service under any technology, Sapiens' open architecture ensures that providers will easily choose the building blocks they need. They'll be able to seamlessly integrate all elements within their insurance ecosystem, to succeed today and prepare for the future.

Sapiens PartnerHub

Sapiens is a global organization with over three decades of extensive experience in insurance innovation and technology. We seek out and identify the most relevant, advanced and innovative technology solutions for the insurance market. We connect third-party technology and insuretech solutions to our Sapiens PartnerHub, from where we make their offerings available to insurers for their own use, and for the use of their customers.

Sapiens ReinsuranceMaster

Sapiens ReinsuranceMaster (formerly called Sapiens Reinsurance) is a comprehensive business and accounting system, providing a superior solution for all types of reinsurance contracts – treaty and facultative, and proportional and non-proportional. It enables insurers of all sizes to manage their entire range of reinsurance contracts and activities for all lines of business, including rich accounting functionality and reporting capabilities.

Our reinsurance solution enables full and flexible control of reinsurance processes, with built-in automation of contracts, calculations and processes. By incorporating fully automated functions adapted conveniently for your business procedures, Sapiens Reinsurance provides flexible and total financial control of your reinsurance processes, including complete support for all auditing requirements and statutory compliance.

Sapiens ReinsurancePro

Sapiens ReinsurancePro (formerly called StoneRiver URS) is an efficient reinsurance administration system, supporting all types of reinsurance processing, regardless of volume, in one comprehensive and powerful reinsurance system. The system produces Schedule F automatically. Our solution enables insurance companies to manage and automate the underwriting and administration of reinsurance, including treaty and facultative, ceded, assumed and retroceded reinsurance.

Sapiens Reinsurance GO

Sapiens Reinsurance GO (formerly called StoneRiver FRS) is designed to meet the ceded reinsurance processing needs of property and casualty providers, from calculating premium and claim cessions, to producing the data required for Schedule F. Sapiens Reinsurance GO consolidates reinsurance accounting and cash management into one area. It automatically attaches and calculates ceded premium, commissions, losses, reserves and LAE, and automatically allocates ceded transactions to reinsurers.

Sapiens Workers' Compensation Offerings

Sapiens Platform for Workers' Compensation

The Sapiens Platform for Workers' Compensation includes the Sapiens CoreSuite for Workers' Compensation, Sapiens Connect for Worker's Connection (a portal solution) and Sapiens IntelligencePro (business intelligence).

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Sapiens CoreSuite for Workers' Compensation

The Sapiens CoreSuite for Workers' Compensation (formerly StoneRiver PowerSuite) offers larger carriers, administrators and state funds the technology solutions that enable them to adapt quickly to business and market conditions, offering high levels of accuracy and efficiency. The suite provides broad functionality throughout the entire insurance lifecycle for workers' compensation, via a core suite, as well as policy, claims and intelligence modules that can be deployed individually, or as an integrated solution. This suite can be purchased as an integrated offering, or standalone components:

Sapiens PolicyPro and Sapiens ClaimsPro.

Sapiens GO for Workers' Compensation

Sapiens GO for Workers' Compensation (formerly called StoneRiver CompSuite) was developed specifically for carriers, managing general agents (MGAs), self-insurance funds and third-party administrators. Sapiens GO can deliver a turnkey solution in just 120 days. With its streamlined user interface and advanced business features, the suite addresses critical objectives for carriers, MGAs, self-insurance funds and third-party administrators (TPAs). This suite can be purchased as an integrated offering, or standalone components:

Sapiens PolicyGO and Sapiens ClaimsGO for Workers' Compensation

Sapiens Financial and Compliance Solutions

Sapiens FinancialPro

Sapiens FinancialPro (formerly called StoneRiver PRO) is accounting software designed for insurers to meet their unique requirements for cash, statutory and GAAP reporting, well as unique allocation and consolidation needs. It handles multi-basis accounting and inter-company transactions, and facilitates the speed and accuracy of financial reporting. Sapiens insurance experts assist carriers in collecting and reporting information they need to expedite all regulatory processes.

Sapiens Financial GO

Sapiens Financial GO (formerly called StoneRiver PTE) gives small- and mid-sized insurers a competitive edge in today’s marketplace, because it’s developed and supported by highly experienced insurance experts. The solution is designed to meet insurers’ specific requirements for cash, statutory and GAAP reporting, as well as unique allocation and consolidation needs. Sapiens Financial GO manages and presents data to help insurance managers make informed decisions.

Sapiens StatementPro

Sapiens StatementPro (formerly StoneRiver eFreedom) makes statement preparation faster and simpler by offering one-click navigation between statements, pages and form validations (cross-checks) to the pages they reference. Intuitive workflow and helpful wizards lead users effortlessly through each step, transforming the filing process and offering one-step filing Additionally, Sapiens offers Sapiens CheckPro (formerly called StoneRiver Power2Pay) and Sapiens Reporting Tools.

Sapiens Business Decision Management Solutions

Sapiens Decision is a set of complete decision management solutions that place software development in the hands of the business domain and enforce business logic across all enterprise applications. Decision effectively addresses the complexity of determining and then translating business logic – data, business rules and machine learning used to make business decisions – into operational code. The business side of the organization can model, validate, test and simulate the business logic required for all new processes using Sapiens Decision. The process takes days or weeks, instead of months or years. A rigorous, structured approach ensures accuracy, efficiency and consistency during modeling. The models may then be automatically generated and deployed as code into automated DevOps environments, ensuring that the software is fully aligned with the organization’s business needs.

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We are currently focusing on the development and marketing of Sapiens Decision in the financial services market in North America and Western Europe, and we are building best practices to be used primarily by mortgage, retail and investment banking where the scale and complexity of operations requires enterprise-grade technology that can easily be adapted as policies and business strategies rapidly evolve. We also developed and market Sapiens Decision for the insurance industry and leverage our industry knowledge and close relationships with our existing customers and partners Decision targets multiple markets, including consumer and commercial, investment and mortgage banking; as well as the P&C and life insurance markets.

Sapiens Decision for Insurance (formerly called Sapiens DECISION) enables insurers to efficiently adapt their business operations to the demands of digital transformation, changing regulations, customer demands and increasing competition. It is currently used by a top-tier, P&C insurance company to implement process automation and effect digital transformation. Sapiens Decision transforms how insurance carriers are approaching change, by modernizing traditional business rules management. It enables insurers to grow their business and respond to market needs through accurate and consistent enforcement of business rules and policies.

Technology-Based Solutions

Sapiens eMerge

Sapiens eMerge is a rules-based, model-driven architecture that enables the creation of tailor-made, mission-critical core enterprise applications with little or no coding. Our technology is intended to allow customers to meet complex and unique requirements using a robust development platform. For example, we perform proxy porting for our customers in an efficient, cost effective manner with Sapiens eMerge.

Sapiens' Global Services

As noted previously, the Sapiens Service Suite is comprised of three main pillars: **program delivery**, **business services** and **managed services**, as well as our various methodologies (which are applied across the first three pillars).

Program delivery includes:

Project and program management

Core development and implementation

Integration

Deployment

Testing

Business transformation services are comprised of:

Business transformation – planning and strategy, business process evaluation, training and change management

Digital transformation – business model and processes transformation, plus data management consolidation and data migration

User acceptance testing (UAT)

System integration

Managed services include:

Hosting services

Application and system management

Ongoing production support

Our services modernize and automate processes for insurance providers and financial institutions around the globe, helping to create greater organizational efficiencies, reduce costs and provide a better end-user experience. Built on a solid foundation of insurance domain expertise, proven technology and a heritage of successful deployments, we assist clients in identifying and eliminating IT barriers to achieve business objectives.

Benefits include:

- **Project delivery experience** – more than 35 years of field-proven project delivery of core system solutions, based on best practices and accumulated experience.
- **System integration** – we help our customers deploy modern solutions, while expertly integrating these solutions with their legacy environments that must be supported.
- **Global presence** – insurance and technology domain experts are located close to our customers to provide professional services.

Our implementation teams assist customers in building implementation plans, integrating our software solutions with their existing systems, and deploying specific requirements unique to each customer and installation. Sapiens' business services include API integration management and business intelligence (BI) and advanced analytics consolidation. Our managed services offer ongoing production support and a 24/7 help desk.

Sapiens' service teams possess strong technology skills and industry expertise. The level of service and business understanding they provide contributes to the long-term success of our customers. This helps us develop strategic relationships with our customers, enhances information exchange and deepens our understanding of the needs of companies within the industry.

Through our service teams, we provide a wide scope of services and consultancy around our core solutions, both in the initial project implementation stage, as well as ongoing additional services. Many of our customers also use our services and expertise to assist them with various aspects of daily maintenance, ongoing system administration and the addition of new solution enhancements.

Such services include:

Adding new lines of business and functional coverage to existing solutions running in production

Ongoing support services for managing and administering the solutions

Creating new functionalities, per specific requirements of our customers

Assisting with compliance for new regulations and legal requirements

In addition, most of our clients elect to enter into an ongoing maintenance and support contract with us. The terms of such a contract are usually twelve months and are renewed every year. A maintenance contract entitles the customer to technology upgrades (when made generally available) and technical support. We also offer introductory and advanced classes and training programs available at our offices and customer sites.

We partner with several system integration and consulting firms to achieve scalable, cost-effective implementations for our customers. We have developed an efficient, repeatable methodology that is closely aligned with the unique capabilities of our solutions.

Our Strengths

Comprehensive digital platform of high-end, crucial business-solutions for insurance – Sapiens is a one-stop-shop offering end-to-end solutions for both the P&C and L&A markets, supporting most sub-segments of these markets and the complete lifecycle of product lines. Our software supports and enables our customers' core insurance business processes throughout the full lifecycle, including policy administration, billing and claims. These are accompanied by the Sapiens DigitalSuite, which offers strong analytics, data management and customer engagement capabilities. We believe this is a unique offering among software providers. Built for global and multi-national operations, our solutions are used in a variety of international regulatory, language and currency environments. And our digital suite is pre-integrated with our Sapiens core products.

Innovative solutions with leading functionality and technology – Our platforms, suites and solutions are based on advanced, modern architectures that are specifically designed to satisfy our customers' needs. These offerings are integrated, modular and component-based, and include scalable product suites supporting various lines of business. By using our solutions, carriers can support new sales channels, including mobile and social, reduce time to market for new product launches, and lower total cost of ownership. Additionally, we significantly invest in research and development to ensure that our products employ new technology, are compatible with the needs of our clients and are easy to use. As a result, our products maintain a leadership position, as recognized by top industry analysts – such as Celent, Gartner and Novarica – for their levels of technology and functionality.

One-stop-shop across products and services – In addition to our market-leading products across P&C and L&A, we possess consulting and implementation capabilities, which we use to customize our products and design the solution that best meets our customers' requirements. We believe that our customers do business with us not only because of our leading products, but also due to our complementary service offerings, which enhance our products and enable clients to maximize the value derived from our solutions.

Additionally, Sapiens' managed services proposition enables our customers to benefit from a long-term engagement model that helps them take care of their IT operational aspects and ongoing business support. We believe that this approach lowers the risks for our clients, as they transition to a new system, and at the same time provides them with the desired functionality. We consult with each of our customers to determine their specific needs and then enhance our core solution and customize the appropriate interfaces.

Strong, diverse and stable customer base – Sapiens currently serves more than 450 customers globally, including some of the world's largest global insurance carriers and financial institutions. Our customer base is diversified across insurance providers of all types and sizes. We have been able to successfully maintain these customers due to our broad product portfolio geared toward addressing the needs of the various industries. In addition, our business decision management platform is applicable across the financial services industry, including a wide range of financial institutions, and offers an opportunity for further diversification in other markets. Such a diversified portfolio of products enables us to benefit further from cross- and up-sell opportunities to this large customer base. Geographically, we derived 47.1%, 44.4%, 4.6%, and 3.9% of our revenues from the North American, European, and Asia-Pacific regions, and from South Africa, respectively, in the year ended December 31, 2018, and 40.7%, 44.9%, 6.7% and 7.7% from these respective areas, in the year ended December 31, 2017.

Long-term relationships with customers – Our products are at the core of our customers' businesses, which ensures that our customers continue to use and co-invest in our products, providing us with long-term relationships that result in revenue stability. Installing a new core system is a major undertaking for insurance carriers that involves extended pre-production work and entails a comprehensive integration and implementation effort that is offered as part of our services. Many of our customer relationships have been in place for more than 10 years and we have benefited from recurring revenues as customers request support, upgrades and enhancements for our systems. We successfully leverage these relationships in a mutually beneficial way, by marketing complementary solutions to our loyal customer base.

Global company –Sapiens’ 450 customers and 2,500 (approximately) employees are located in 25 countries around the world. We bave five major development, delivery and support centers in Israel, U.S., India, Poland and the UK. Sapiens’ “think global, act local” approach is based on having experts in close proximity to Sapiens customers, to establish and maintain strong relationships, and provide fast support when necessary

Proven management team – Sapiens’ management team has extensive experience in the insurance and financial services industries, and we have been able to achieve our business and development objectives to date. Management has also been successful in retaining key personnel from the companies we acquired, enabling us to benefit from their experience and knowledge of the acquired products and technology. Our management team possesses a variety of skills in product development, business development, sales, marketing, technology and finance, as well as a unique knowledge of the financial services industry. We have maximized contributions from our hard-working, talented and innovative employees.

Our Strategy

Leveraging our offerings, geographic presence and experienced management team, our goal is to further expand our presence in the markets in which we operate and further enhance our leadership in the global market. Our growth strategy is solidly based on both existing and new customers, and will include mergers and acquisitions, when applicable, to accelerate our growth. We plan to achieve our goals by focusing on the following principles:

Continue to innovate and extend the leadership of our product offerings – We plan to continue to invest in research and development (R&D) to enhance our software platforms, as well as expand our business and technology partnerships, and to ensure our offerings remain leading products, in terms of functionality and technology. Sapiens believes our focus on innovation, combined with our industry expertise, will enable us to improve our existing offerings and allow us to produce new solutions for the benefit of our customers and partners.

Leverage our global footprint to offer our complete platform/solutions – Sapiens intends to broaden our existing offering of solutions to enhance our presence in the geographies in which we currently operate. In particular, we believe that there is considerable opportunity to grow sales of our P&C platforms in the United States, Canada and Europe. Additionally, we plan to market our current suite of solutions to previously untapped countries in Europe, to continue to generate revenue on existing products in new geographies. Sapiens also plans to expand the market reach of our business decision management platform into Europe and the Asia Pacific region.

Mergers and Acquisitions (M&As) – Our M&A approach facilitates our growth strategy. We continually (but also prudently) seek to identify new growth markets to penetrate via acquisition of local offices and customer bases. In addition, we aim to enhance our product portfolio with complementary solutions that will help our customers excel. Sapiens believes that our acquisition of local customer bases and expertise will accelerate our market penetration in strategic regions. We continue to successfully leverage the acquisition of StoneRiver and Adaptik to strengthen our presence in North America, expand our product portfolio and accelerate our footprint in the North American P&C market.

Capture adjacencies and new opportunities – Insurance software vendor engagements with insurers are often long-term. To maximize the value of our current offerings and leverage our ongoing relationships with customers, Sapiens plan to feature and promote our digital suite and managed services proposition to enhance our presence in the insurance market. Additionally, we plan to focus on deeper penetration of the financial services market with our business decision management platform. Our business decision management platform can be used in a wide variety of organizations (particularly banking) to facilitate streamlined and efficient regulatory compliance.

Invest in sales and marketing – Sapiens plans to strengthen our sales and marketing teams by working with and training sales professionals with experience in the insurance industry, or with connections to new or existing customers. We continually try to expand market-awareness of our brand and solutions, including our recent total rebrand of our website and master brand architecture, and enter new markets and domains within the insurance technology space. We believe that the strength of our core solutions, the experience of our sales and marketing team, and our established and growing customer base create a significant opportunity to provide new and complementary solutions that address the ongoing needs of our customers.

Focus on our existing customer base – One of our strongest assets is our large and continuously-growing customer base and our long-term relationship with our customers. As we continuously grow our product portfolio, our value-added services, and our managed services proposition, Sapiens has a unique opportunity to enhance our footprint within our existing customers base via cross- and up-selling. By providing additional services and products, Sapiens can grow its presence with established customers. The company plans to strengthen its account management team and in 2018 we made a strategic decision to create a new team to evolve our previous customer support model from a “siloed-by-business” support approach to what is now a fully integrated customer success team that supports all Sapiens’ product lines. We recruited several key executives in 2018 and we will continue to expand this team throughout 2019.

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Competitive Landscape

Sapiens is focused on serving insurers. The market for core software solutions for the insurance industry is highly competitive and characterized by rapidly changing technologies, evolving industry standards and customer requirements, and frequent innovation. In addition, we offer a business decision management platform, mainly to financial services organizations.

Competitive Landscape for our Insurance Software Solutions

Our competitors in the insurance software solutions market differ from us based on size, geography and lines of business. Some of our competitors offer a full suite, while others offer only one module; some operate in specific (domestic) geographies, while others operate on a global basis. And delivery models vary, with some competitors keeping delivery in-house, using IT outsourcing (ITO), or business process outsourcing (BPO).

The insurance software solutions market is highly competitive and demanding. Maintaining a leading position is challenging, because it requires:

Development of new core insurance solutions, which necessitates a heavy R&D investment and in-depth knowledge of complex insurance environments.

Technology innovation to attract new customers, with rapid, technology-driven changes in the insurance business model and new propositions coming.

A global presence and the ability to support global insurance operations.

Ability to manage multiple partnerships, due to the changing landscape of insurers' ecosystems.

Extensive knowledge of regulatory requirements and how to fulfill them (they can be burdensome and require specific IT solutions).

Continued support and development of the solutions entails a critical mass of customers that support an ongoing R&D investment.

Know-how of insurance system requirements and an ability to bridge between new systems and legacy technologies.

Enabling mission-critical operations that require experience, domain expertise and proven delivery capabilities to ensure success

The complex requirements of this market create a high barrier to entry for new players. As for existing players, these requirements have led to a marked increase in M&A transactions in the insurance software solutions sector, since small, local vendors have not been able to sustain growth without continuing to fund their R&D departments and following the globalization trend of their customers.

We believe Sapiens is well-positioned to leverage our modern solutions, customer base and global presence to compete in this market and meet its challenges. In addition, our accumulated experience and expert teams allow us to provide a comprehensive response to the IT challenges of this market.

Different types of competitors include:

- Global software providers with their own IP.
- Local/domestic software vendors with their own IP, operating in a designated geographic market and/or within a designated segment of the insurance industry.
- BPO providers who offer end-to-end outsourcing of insurance carriers business, including core software administration (although BPO providers want to buy comprehensive software platforms to serve as part of the BPO proposition from vendors and may seek to purchase our solutions for this purpose).
- Internal IT departments, who often prefer to develop solutions in-house.
- New insuretech companies with niche solutions.

We differentiate ourselves from our competitors via the following key factors:

- We offer innovative and modern software solutions, with rich functionality and advanced, intuitive user interfaces.
- Sapiens uses model-driven architecture that allows rapid deployment of the system, while reducing total cost of ownership.

Our solutions are built using an architecture that allows customers to implement the full solution or components, and readily integrate the solution or individual components into their existing IT landscape.