The 2016 PwC Israel M&A Report

PwC Israel M&A Market Overview

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Summary

- Overall deal value increased by c. 34% during 2016 and amounted to c. $16.8bn (excluding the Teva/Allergan deal), compared to c. $12.6bn during 2015. Concurrently, larger deals have become significantly more prominent with 32% of deals (and 44% out of the inbound foreign investments) closed above $100m.
- Nine transactions in 2016 closed with a value above $0.5bn, versus five last year. This trend is led by Teva which acquired in 2016 Allergan's generics division for c. $39bn, the biggest deal in the history of the Israeli M&A market, alongside the acquisitions of Rimsa and Anda (approx. $2.3bn and $0.5bn, respectively)
- The upsurge in average deal value continued with a 41% rise in 2016 to $227m per transaction (excluding the Teva/Allergan deal). Moreover, the number of deals closed grew for the first time in 5 years, from 96 deals in 2015 to 120 deals in 2016.
- Inbound foreign investments continued to grow in value, guided by investors from East Asia while Israeli investors' cross-border activity declined slightly (excluding the Teva/Allergan deal). Total foreign investments in Israeli companies totaled c. $11.1bn this year versus $6.5bn in 2015, a 71% spike.
- Forecast – we believe that companies will remain aggressive in the M&A market during 2017 as they pursue strategic moves in order to influence and sway their sector. Conversely, the economic policies changes which may be implemented by the Trump administration and the several processes contemplated by the Chinese government, alongside the potential opening of the IPO window, might lead to a decrease in M&A activity during 2017.
- To avoid anomaly of data and breakdowns, the report excludes the Teva-Allergan mega deal in its value analyses.

Summary

Deal value growth; Average deal value trend continued to rise; Increase in the number of deals for the first time in 5 years

Total deals value, exclusive of the Teva/ Allergan transaction totaling c. $39bn, increased by approx. 34% during 2016 and amounted to c. $16.8bn, compared to c. $12.6bn during 2015.

There was an upturn in the annual trend of number of deals, which has been declining for the past 5 years. The number of deals grew by c. 25% versus last year, after a constant decrease since 2012. During 2016, 120 M&A deals were closed versus 2015 which only had 96 deals, an increase back to 2013's level. The low interest rate environment combined with the market players' cash reserves are the main drivers of the growing M&A activity, especially in light of the weakening alternative investment channels, particularly the withdrawn IPO market.

The average deal value continued its prominent growth, increasing during 2016 by 41% to $227m (excluding the Teva/Allergan deal) from 2015's average of $161m. The average deal value since 2012 experienced CAGR of c.39%. The overall deal value and the average deal value are the result of the vibrant M&A activity associated with the Israeli companies, the amount of available cash reserves and the continued growing interest in more mature targets.

Large deals continue to become more prevalent

In the past year we witnessed Israel's largest deal as Teva completed the acquisition of Allergan's generics division for c.$39bn, an amount which exceeds by $3bn the overall accumulated deal value from 2012 through 2015 (inclusive). With exception of this deal, 8 deals valued in excess of half a billion dollars were closed during 2016, compared to 5 during the previous year.

Concurrently, the persistent drop in the proportion of deals valued less than $100m did not waver, as the volume of deals in excess of $400m grew to 12% during 2016 from 9% during 2015.

The frequency of these sizeable deals is indicative of the maturity of the Israeli M&A market as well as cash-rich positions of the market participants.

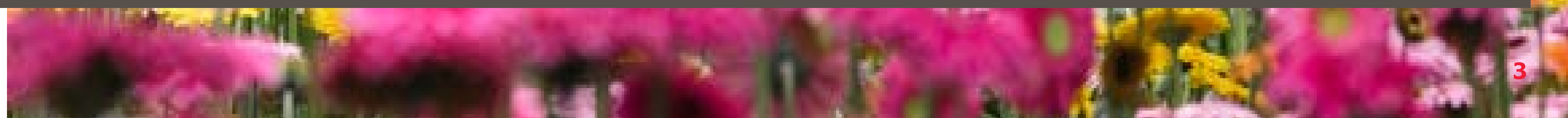
Corporate/Strategic investors continued to spearhead the market, though there is an increase in the overall value of financial investments

As in the preceding years, the number of deals carried out by financial investors accounted for c.20% of transactions. Nonetheless, the proportion of financial investments' deal value of the overall deal value rose to approx. 40% ($6.8bn) during 2016 from a mere c.20% ($2.6bn) during 2015 (excluding the Teva/ Allergan deal). In 2016 financial players increased their share in overall deal value mainly due to the Playtika transaction, which was acquired by a Chinese consortium for approx. $4.4bn. The size of the transaction can attest that Israel was also impacted by the worldwide increase in financial investors' activity.

Growth in M&A activity by foreign investors in Israel continued to be driven by investors from East Asia, whereas Israeli investors' activities overseas has decreased

Overall value of deals by foreign investors grew by a substantial 71%, from $6.5bn in 2015 to $11.1bn in 2016.

During the last two years (2016 and 2015) the



Israeli M&A market experienced an increase in the overall funds expended by foreign investors in domestic targets, with the core increase stemming from investments originating in East Asia. Chinese players were a major driver of this growth, contributing 6 deals during 2016, compared to 4 during 2015 (including Hong Kong). An additional interesting piece of information is the geographical decentralization in 2016, which had deals closed involving acquirers from 16 different countries versus only 10 countries in 2015.
In 2016 interest in Israeli companies continued to grow. Stable and mature companies attracted interest from foreign investors from varied industries and different regions around the world.

As in previous years, the software and technology sector and the pharmaceutical and life sciences sector were at the forefront of the Israeli M&A market during 2016

The software and technology sector concentrated the majority of activities in the mergers and acquisitions market during 2016 in a similar fashion to the preceding years. This sector amassed c. 44% (approx. $7.5bn) of the overall deal value this year versus c. 35% (approx. $ 4.5bn) in 2015. Moreover, the number of deals rose from 38 in 2015 to 53 in 2016.
The pharmaceutical and life sciences sector preserved its position as the 2nd largest sector within the Israeli M&A marketplace in spite of an 11% decrease in overall value of deals (excluding the Teva/Allergan deal). The 15 transactions which were closed during 2016 amounted to approx. $3.9bn in deal value as opposed to 17 deals in 2015 totaling $4.4bn.
In our previous annual reports, a different sector took the place of the 3rd largest sector according to overall deal size. This year was no exception. In 2016, the consumer products and services sector achieved this feat with c. $1.5bn in total deal activity, led by the sale of 80% of Keter Plastic to BC Partners and PSP Investments for approx. $1.4bn.

Forecast

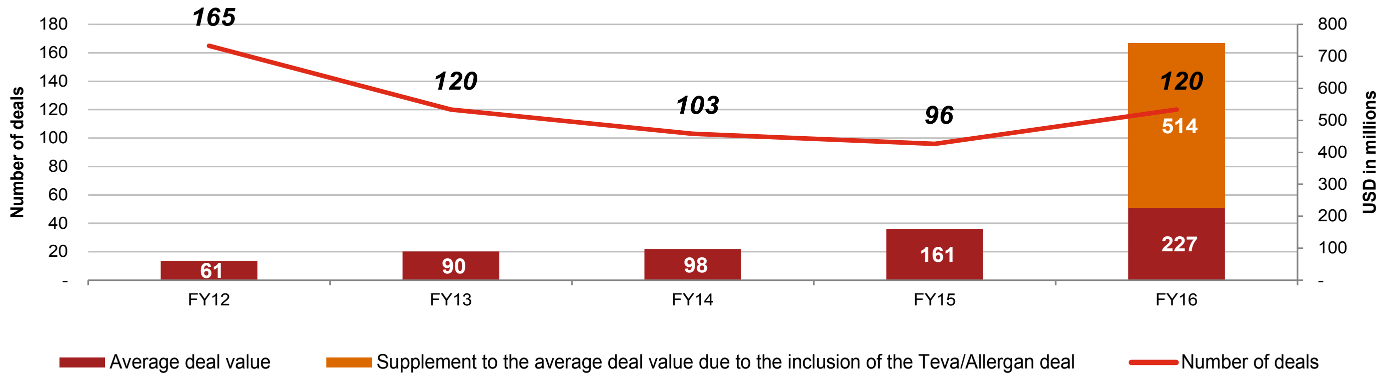
The Israeli M&A market is expected to continue its growth in 2017.
We believe that companies will persist, through aggressive moves within the M&A market, in their pursuit of strategic initiatives, which will allow them to influence their sector's ecosystem. The technological-driven expansion of the worldwide marketplace will remain the key driving force fueling M&A activity, with local companies contributing both as targets and acquirers.
The never-ending need to innovate and growing new competition in traditional sectors are expected to keep the M&A strategy in the forefront for local and foreign investors.
Despite the abovementioned, the concerns expressed with respect to potential changes to the US's economic policies under President-elect Donald Trump and the impending restrictions the Chinese government is intended to pass regarding cross-border investments (to protect the Yuan) may have an adverse effect on the M&A market in Israel in years to come. That said, we believe that Chinese investors are nevertheless eager to seek cross-border investment opportunities along with these players' desire to own and operate foreign business.
Ultimately, we foresee that the Israeli M&A activity will carry on going strong in light of the availability of capital for investments, as companies decentralize their transactions while blurring lines between industries and increasing cross-border deal activity. Businesses in diversified industries and decision makers will persist to search for growth engines through mergers, acquisitions, joint ventures or other dealings thereby fueling the market.

Liat Enzel Aviel, Partner
Head of Transaction Services
PwC Israel

The average deal value continued its prominent growth. Deal volume increased in 2016 after a 5 year downhill trend

Annual number of deals and average deal value

2016 was characterized by a relatively high amount of large deals, even with the exclusion of the Teva/ Allergan mega-deal which by itself was exceptional in terms of its financial scale even by global standards. The average deal value shot up by 41% to c. $227m, with the exception of the Teva/Allergan deal which further spiked the average price by c. $514m to approx. $741m per deal on average. The key transactions, which headed this upward trend, were the sale of Playtika to a Chinese investment consortium for $4.4bn, acquisition of Mexico based Rimsa by Teva for c. $2.3m, ChemChina's buyout of IDB's remaining 40% stake in Adama (formerly Makhteshim Agan) for c.$1.4bn and the sale of control in Keter Plastic to BC Partners and PSP Investments for approx. $1.4bn. This year saw 120 deals completed, compared to 96 deals during 2015, 103 deals during 2014, 120 deals during 2013 and 165 deals during 2012. This trend can be attributed to weak IPO activity in 2016 and the enduring low interest rate environment.

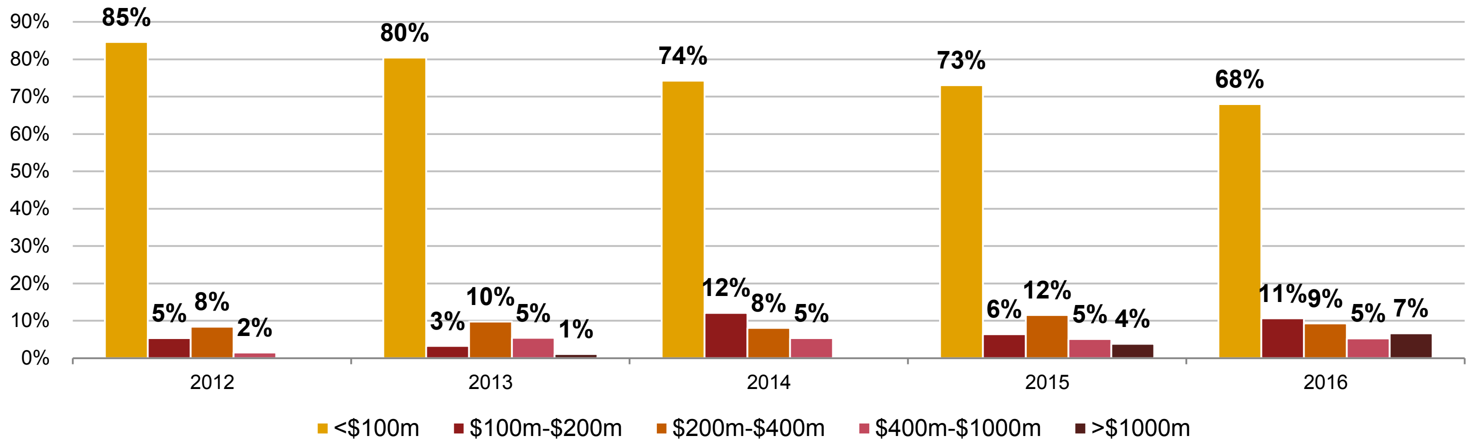


Average deal value skyrocketed past the $200m threshold

Deals valued above $100m continued to increase in number

Throughout 2016, approx. 68% of transactions were closed with a deal value under $100m. We bear witness to a constant and gradual drop in volume share of deals below $100m, where in 2012, 85% of deals were below $100m and only 68% in 2016. At the same time, we see an increase in deals with values ranging between $100m and $400m, which accounted for approx. 20% of all transactions closed in the past 3 years.

Breakdown of deal quantities



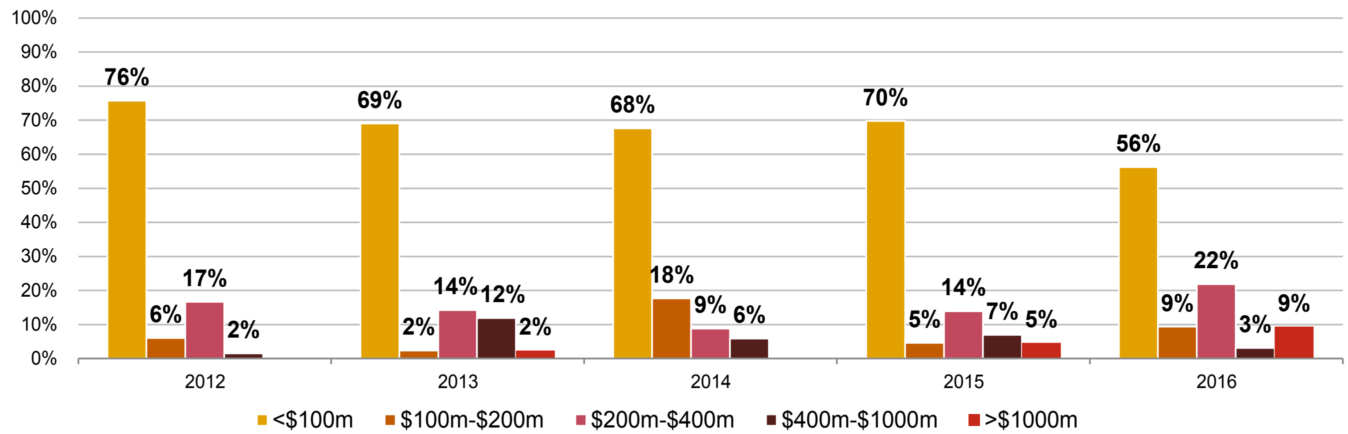
32% of the deals closed were above the $100m mark

Deals valued above $100m continued to increase in number -continued

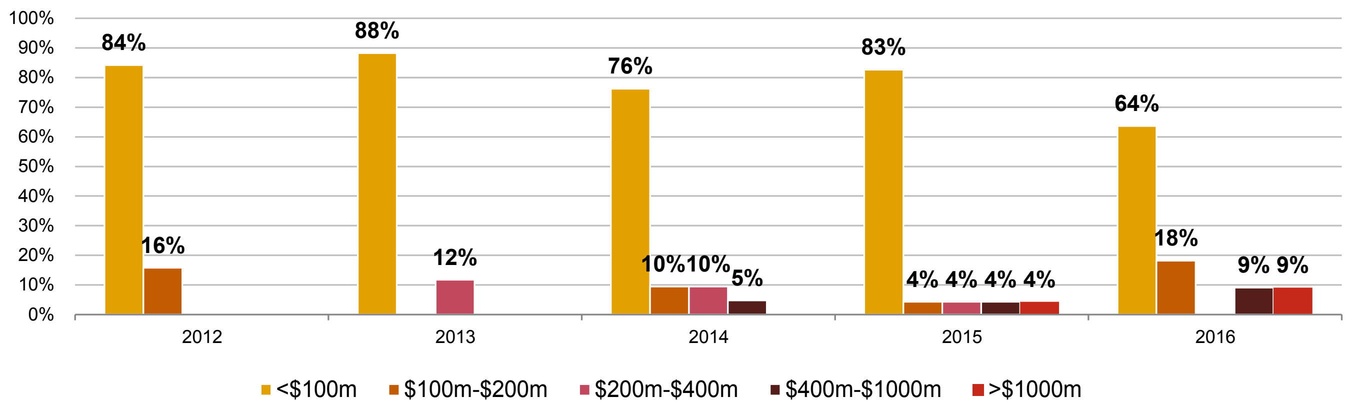
Foreign investors continued to drive the average deal value upwards as in recent years. 2016 had a noteworthy record amount of deals priced in excess of a billion US dollars, as that class of deals represented 7% of 2016's overall number of transaction and concurrently 9% of the passing year's number of inbound deals. We observed a continuing trend of growing interest and acquisitions of larger and riper Israeli companies, which do not necessarily belong to the software and technology sector as seen in past years.

Similarly to inbound capital, Israeli investors also increased price levels during 2016 in their overseas investment pursuits. Throughout the year, the percentage of deals closed at the $100m to $200m range increased versus 2015, prominently due to deals made by Frutarom which acquired Wiberg of Austria (approx. $130m) and the acquisition of one of VF Corporation's divisions by Delta Galil (approx. $120m). The increase in the number of transactions priced beyond the $400m threshold is principally credited to 3 of Teva's deals (Allergan, Rimsa and Anda) and the acquisition of inContact by NICE (approx. $0.9bn).

Breakdown of deal quantities of inbound foreign investments



Breakdown of deal quatities of outbound Israeli investments

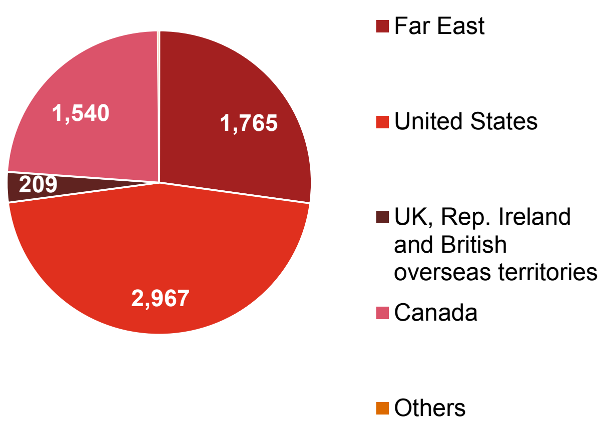


Geographical decentralization exhibited by foreign investors in the local M&A market coupled with a decrease in number of deals closed by US companies

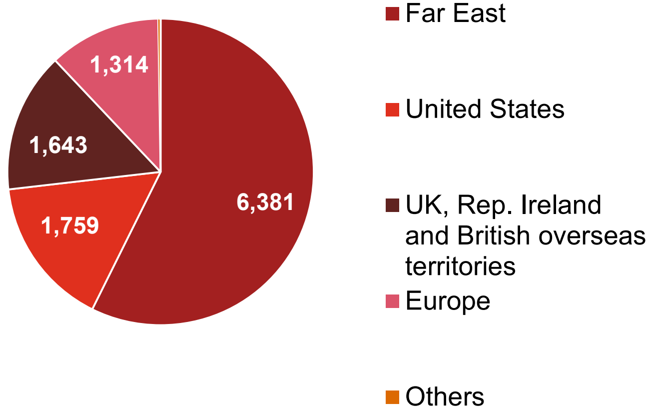
In 2016, the geographic dispersion of foreign deal-makers expanded. 2016 had transactions carried out by players from 16 different countries compared to merely 10 countries in 2015. Furthermore, deals concluded by East Asian investors grew in number with 9 such deals closed in 2016 (of which 6 by investors from China) versus 6 deals closed in 2015 (of which 4 by investors from China). In turn, the overall inbound deal value from East Asia investments grew by c. 262%, from c. $1.77bn in 2015 to c. $6.38bn in 2016.

2016 observed a halt in the recent trend of acquisitions completed by US companies, as the number of deals decreased compared to 2015. 26 acquisitions were made by US investors in 2016 versus 31 in 2015. Concurrently, the overall respective deal value declined by 41% to c. $1.76bn in 2016 compared to c. $3bn in 2015.

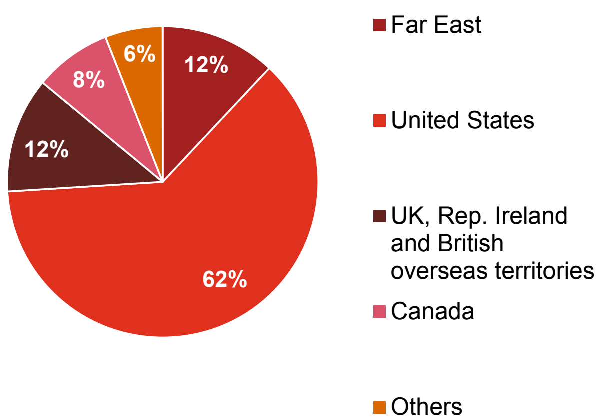
Total inbound investments by geographic region in 2015



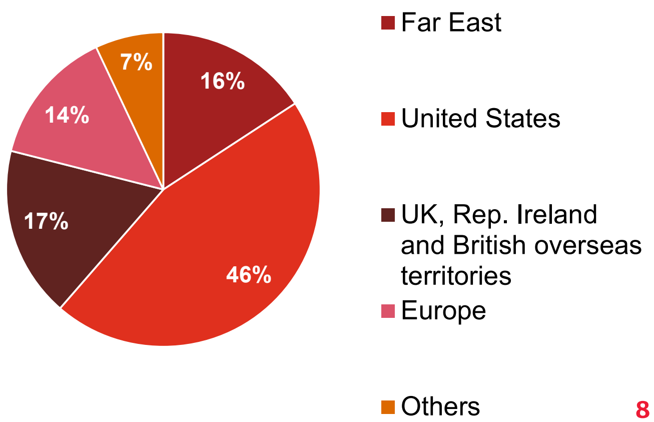
Total inbound investments by geographic region in 2016



Foreign investors by geographic region as % of overall number of inbound deals in 2015



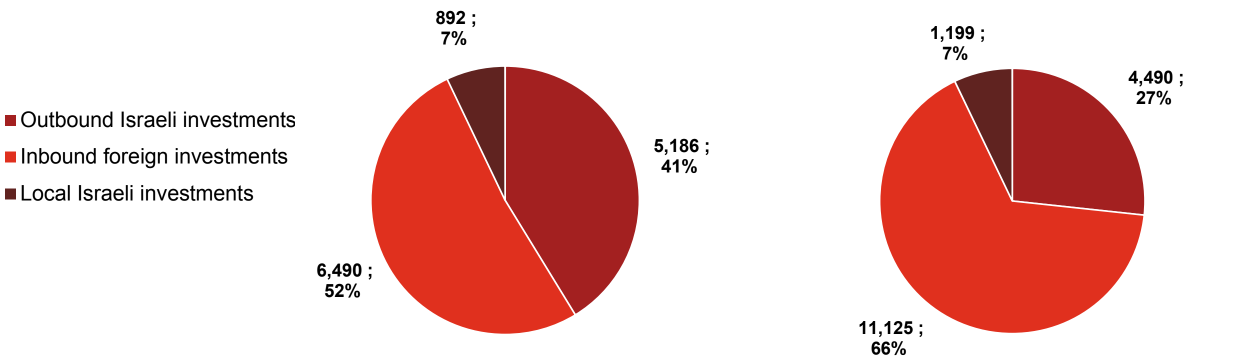
Foreign investors by geographic region as % of overall number of inbound deals in 2016



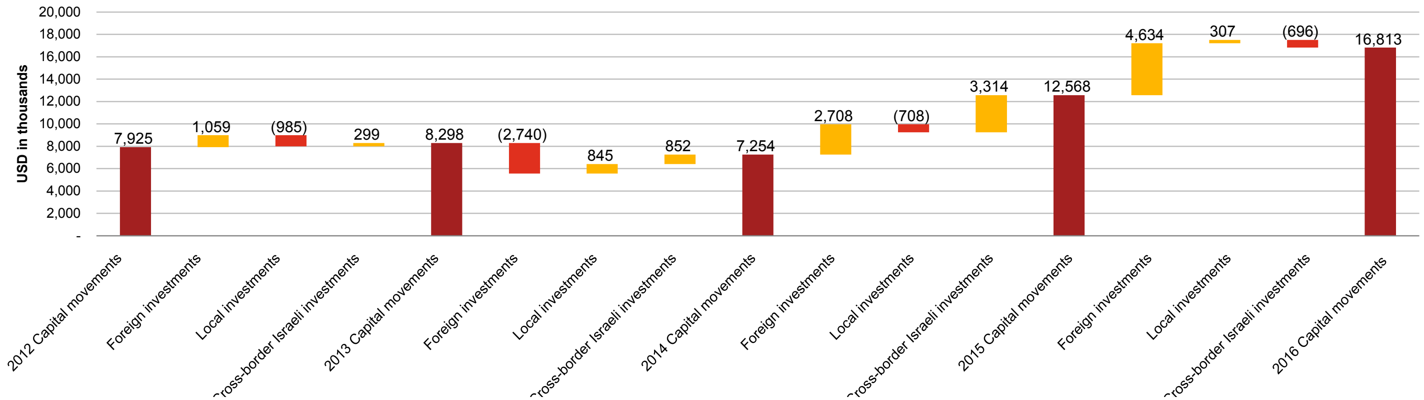
Israeli investors are less prominent overseas (excluding the Teva/Allergan deal) while foreign investors´ activity continued to grow

2015 Capital movements

2016 Capital movements



Capital movements in the Israeli M&A market from 2012 through 2016, excluding the Teva/Allergan deal



The overall deal value of foreign investors' incoming activity into Israel shot up by 71% in 2016 from 2015, as total investments grew from c. $6.5bn to c. $11.1bn, respectively. This trend was driven by Chinese investors (prominently the acquisitions of Playtika and Adama during 2016 for approx. $4.4bn and $1.4bn, respectively, and Tnuva for c. $1bn in 2015). Without these transactions, there was a slight dip in total inbound deal value from c. $5.46bn in 2015 to c. $5.31bn in 2016.

Israeli investors were not as active overseas in 2016 versus 2015 with total deal value falling by 13% to c. $4.5bn in 2016 (excluding the Teva/Allergan deal), in spite of the increase in number of deals closed (34 compared to 30). Frutarom continued to stand out with 7 cross-border acquisitions amounting approx. $250m.

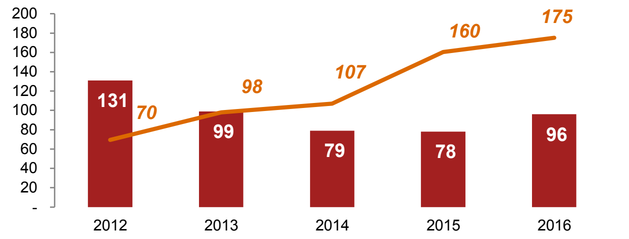
Teva led the way with total deal value invested abroad (c. $41.5bn), similarly to 2015, as NICE also stood out with the acquisition inContact for c. $0.9bn.

Local deals, where both parties are Israeli, faintly increased from $892m in 2015 to $1,199m in 2016 (mainly due to the acquisition of EZChip by Mellanox in 2016, which contributed $811m). The number of deal rose from 16 in 2015 to 28 in 2016. It should be mentioned that the number of deals whose transaction value was not disclosed publicly increased from 4 in 2015 to 7 this year, thus the uptrend may be greater than presented in our analysis.

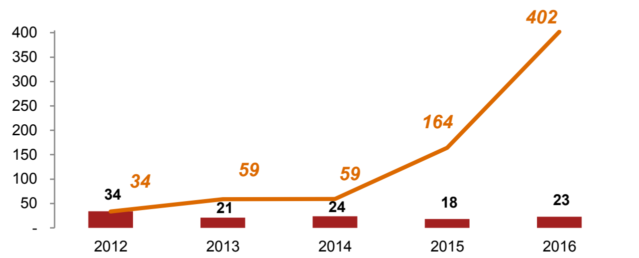
Corporate and financial investors (excluding the Teva/Allergan deal)

The uptrend in corporate capital investments lingered as overall and average financial deal value rose

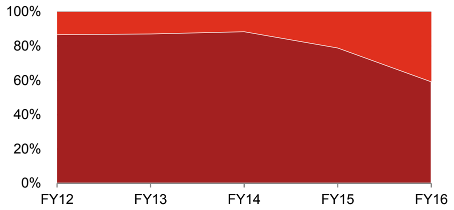
Number of and average deal value of corporate deals



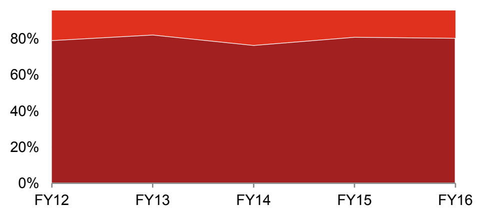
Number of and average deal value of financial deals



Breakdown of overall deal value by acquirer type



Breakdown of number of deals by acquirer type



Financial

Roughly 41% of overall deal value during 2016 was carried out by financial investors, compared to 21% last year and an annual average of c. 12% throughout the years 2012-2014. This year we observed financial players increase their share in overall deal value mainly due to the Playtika transaction, which was acquired by a Chinese consortium for approx. $4.4bn. Excluding the Playtika deal, the overall financial deal value portion of total transactions amounted to c. 20%, similarly to last year. In contrast, no change was recorded in the number of deal ratio of financial investors out of the total quantity, remaining consistent around 20% of total amount of annual deals in the past five years.

The overall financial deal value stood at approximately $6.8bn (including the $4.4bn acquisition of Playtika). This amount is greater than the aforesaid accumulated financial deal value during the years 2012 through to 2015 ($5.6bn). Furthermore, the average deal value soared as well from $164m in 2015 to $402m in 2016. Excluding the Playtika transaction, overall financial deal value fell to $2.4bn ($2.6bn in 2015), despite Keter Plastic's deal with BC Partners and PSP Investments for c. $1.4bn.

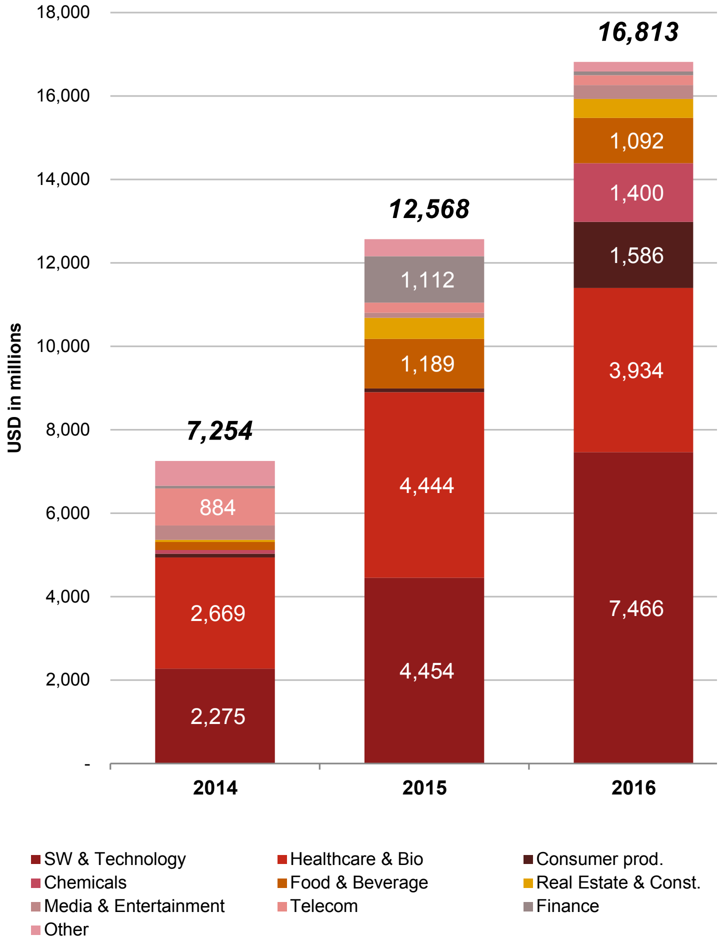
Corporate

The overall value of deals closed by strategic players was approximately $10bn, near last year's outcome ($9.9bn). The average corporate deal value continued its upward trend to $175m (grew by 9% compared to last year). 2016 was the first time in five years in which there was also an increase in the number of corporate transactions, with these investors closing 96 deals in 2016 versus 78 deals in 2015.

Excluding the closings of the financial Playtika deal and corporate Adama transaction (approx. $4.4bn and $1.4bn, respectively), the average corporate deal value in 2016 was $153m versus $152m for the average financial deal. Similar to what we saw during 2015, when the value of a corporate deal averaged at $160m versus $164m for the average financial transaction. This differs from 2012-2014's year end results which saw the average deal value of financial investors amount to only half their corporate counterparts. This trend is further evidence of the effects of the low interest rate environment and the current availability of both corporate and financial capital in search of high-yield investments, and the maturity and continued development of mergers and acquisitions market in Israel.

Key industries

Overall deal value by industry (ex. Teva/Allergan)



The software & technology and pharmaceutical & life sciences sectors continued to lead the Israeli M&A market in terms of both overall industry deal value and volume.

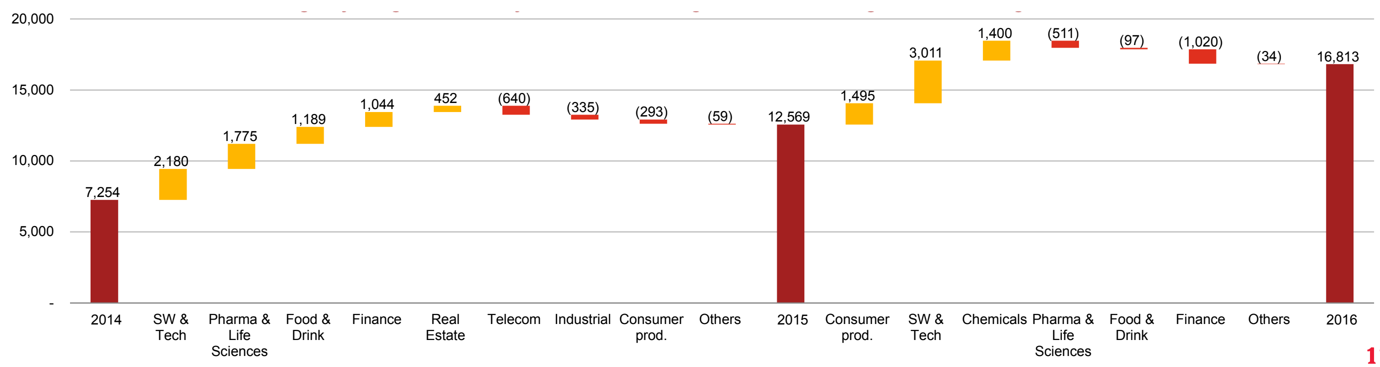
The software & technology industry spearheaded the growth in overall deal value in 2016 ($7.5bn in 2016, up from $4.5bn in 2015). Concurrently, the number of deals closed increased; 53 deals in 2016 compared to 38 deals in 2015, led by corporate investors with 45 transactions this year (compared to 31 in 2015). However, the average corporate deal value in the software & technology sector declined from $146m in 2015 to $125m in 2016.

The pharmaceutical & life sciences industry, excluding the Teva/Allergan deal, contracted during 2016 in terms of overall deal value (approximately $3.9bn in 2016, in comparison with approximately $4.4bn in 2015) and by the quantity of transactions closed (13 corporate deals and 2 financial deals during 2016 versus 14 corporate deals and 3 financial acquisitions in 2015). Most of this change can be attributed to the acquisition of Lumenis by the XIO fund in 2015 for $0.5bn.

The consumer goods sector stood out during 2016 in terms of overall deal value ($1.6bn), accredited to the sale of 80% stake in Keter Plastic to BC Partners and PSP Investments for $1.4bn.

Furthermore, the food and beverage sector remained stable and prominent this year, compared to last year, with a total value of deals amount approx. $1bn, of which the acquisition of the minority stake of Osem by Nestlé for approximately $840m stood out.

Overall deal value bridge by Target`s industry from 2014 through 2016, excluding the Teva/Allergan deal



Study methodology

- *The majority of the data were sourced from Thomson Reuters and PwC analysis, year to date through November 30, 2016.*
- *Deal statistics were determined by the closing date (as opposed to once they are advertised via the media, which may be sooner than the actual respective closing date, if the deal is completed at all). The study excluded deals that were not declared as closed (such as transactions in process and/or pending, deals still negotiated, etc.).*
- *The study referred to deals in which one party involved is a company registered in Israel.*
- *For approximately 37% of the transactions covered by this 2016 study deal value was neither published nor disclosed, compared to 19% in 2015. Accordingly, it is possible that the trends analyzed in our study may be stronger this year, or possibly these deals' values may be insignificant with unnoticeable effect. Accordingly, these deals were included in the quantitative analyses, but were excluded from the average deal value analysis.*

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