

PwC Israel 2018 Hi-Tech Exit Report



The 2018 PwC Israel Exit Report

After experiencing a ramp-up of both the number and values of tech deals in 2017, the exit performance of the Israeli Hi-Tech industry cooled down in 2018. In the passing year, private placements and IPOs amounted to \$4.9 billion, a 33% drop in transaction value. This decline was further evident in the average value per deal, which this year was \$81 million, down from \$106 million last year. However, please note that these figures do not cover deals by companies that have already been included in our previous reports, because we do not classify those as exits. If we had, the per-deal value would have been higher, as several secondary-market deals in 2018 broke through the \$1 billion mark. And although those are not reflected in the hard numbers, we will indeed touch on them in this report.

The story behind the numbers

All in all, the local Hi-Tech market has undeniably continued to draw tech titans and other international players that are in pursuit of creative solutions backed by deep technology. Deals like Datorama (acquired by Salesforce), Velostrata (by Google) and RedKix (by Facebook) prove that local companies are capable of quickly identifying needs and find solutions in critical aspects of the new and ever-changing media world, which is characterized by ad campaigns, cloud technologies, information processing, organizational communications, etc. Another level to this story is the hard fact that Israel is - and has been for quite some time now - a cyber powerhouse, sprawling over several subdomains of this very broad area. Cyber continued to dot the deal landscape this year too. Good examples of that are Sygnia, which was acquired for \$250 million by Temasek Holdings; Dome9, which was acquired for \$175 million by Check Point; and Secdo, acquired by Palo Alto Networks for \$100 million. Add to that exits involving less common industries, such as Tapingo, which offers an advanced platform for food ordering, that was sold to the online food delivery giant Grubhub, and BriefCam, which allowed scanning and analyzing video footage, sold to Canon for \$90 million. This goes to show that this year too Israeli Hi-Tech is attracting many different and diverse verticals.

Yet, to understand why 2018 was low key in terms of deal number and value, we need to have a broader perspective of some bigger trends in the local market. An exit is the endpoint of a long process that is impacted along the way by many and varied internal and ecosystem factors. The capital raising market, as well as the secondary market, has become more sophisticated and experienced considerable growth in recent years. The upshot of that is a higher value derivative that directly influence exit strategies, making them longer-term, more costly and even riskier.

The \$1-billion club

As I noted earlier, we must not overlook the expanding \$1-billion club. In 2018, several deals topped that threshold, with Orbotech, which was sold for \$3.5 billion; Imperva, which was sold for over \$2 billion; Mazor, with over \$1.5 billion; and NDS, changing hands again, for \$1 billion. If those deals are taken into account, then the total deal value for 2018 is a healthy \$13 billion. This exclusive group now has members from beyond the classic tech realm. Of note are Frutarom and SodaStream that were sold for \$7 billion and \$3.2 billion, respectively. Those deals, apart from the prestige and their importance to the domestic economy, have a secret ingredient: dominant owners and management teams that understand what the markets need and are well versed in how to navigate the global environment. If we add this to the growing scale of capital raises, we get a recipe for creating homegrown companies that know how to run longer distances. On the other hand, this same trend may suppress over time the number of small and medium deals.

What's next?

In recent years, we see a new breed of investors that is more patient, alongside entrepreneurs and managements that are strategically savvy about the right steps to take in the present global world. Significant investment rounds, coupled with an evolving secondary market, have made values go sustainably up, as stakeholders have higher expectations. This in turn discourages low-value deals, while driving a longer life-cycle-to-exit and growing demand for stronger managements that are able to steer the ship over an extended period of time.

We must not forget, though, that the local market is affected to a large extent by trends farther afield. Abundant money and new investors opening up to Israeli technology are both supporting the local market. On the flip side, the relative instability of global capital markets, the US-China trade feud and rising interest rates in developed countries are just examples of the factors that may weigh heavy and add to the uncertainty that has lately overshadowed the market.

It is obviously difficult to predict what lies ahead, but if we try to set one prediction in stone, it is that the Israeli Hi-Tech market will continue to be a fertile breeding ground for the world as business models and economic processes continue to be disrupted in a faster and faster pace. However, in a reality where both valuations and uncertainty levels are soaring, there is no substitute to dominant management teams that are up for a long and challenging journey.

Although 2018 was slower, it's worth keeping in mind that this has been a seller market for some years now. All the factors discussed here point that the number of mature tech companies is going to be greater than ever. As of writing this, it is of course unclear what 2019 holds, but assuming things will get back to normal, then there are quite a few Israeli companies that are ready for an IPO or another significant event in the coming year.



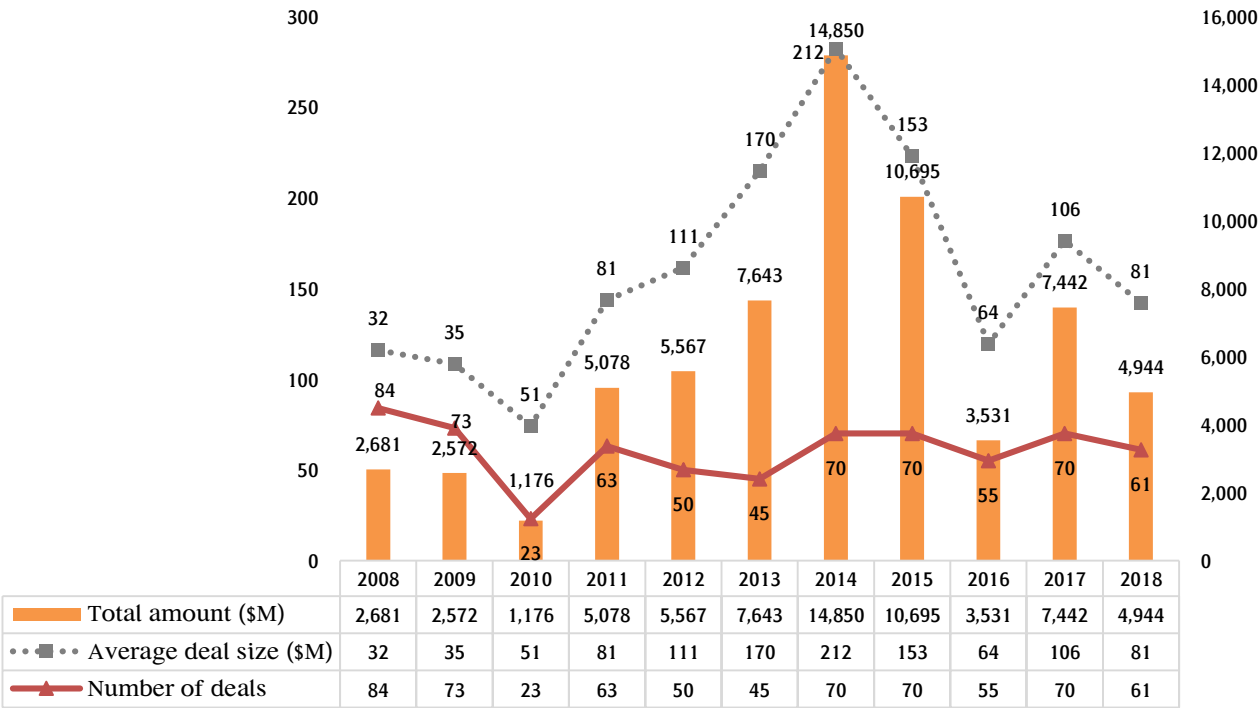
Yaron Weizenbluth
Hi-Tech Partner
PwC Israel

Total exits - Public offerings and M&As in 2008-2018 (\$M)

In 2018, the total value of private investments and IPOs was \$4.9 billion, a 33% drop from \$7.4 billion in 2017. Sixty-one deal took place in 2018, considerably fewer than 70 in 2017. This downtrend was also visible in the average deal size, which was cut 24% relative to the previous year.

On the other hand, 2018 was characterized by some exceptionally sizable deals; however, those are not reflected in our numbers. The key reason for that is that those companies were already featured in our previous annual reports when their initial exit took place. So, including them in this year's report would have distorted comparability of our data across years.

* The report accounts only for exits of over \$5 million.

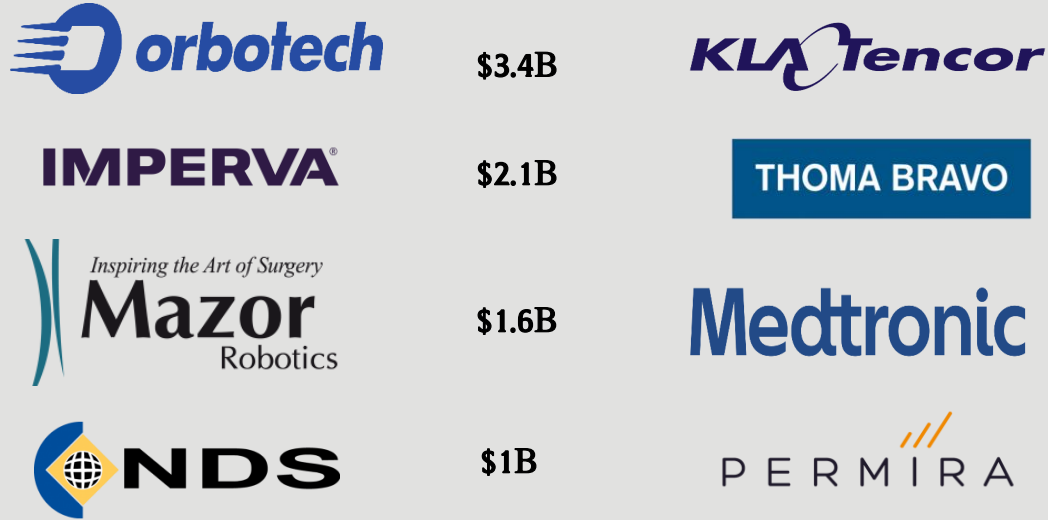


Some of the major transactions that were left out this year are:

- Orbotech - had an IPO on NASDAQ in 1984
- Imperva - went public on NYSE in 2011
- Mazor - had an IPO in 2013 on NASDAQ, following listing on TASE a year earlier
- NDS - undergone an IPO in 1999 on NASDAQ, was sold in 2008 to media mogul Rupert Murdoch and later to Cisco in 2012
- SteadyMed - was listed on NASDAQ in 2015
- Enzymotec - had an IPO on NASDAQ in 2013

An overall analysis of outlier deals

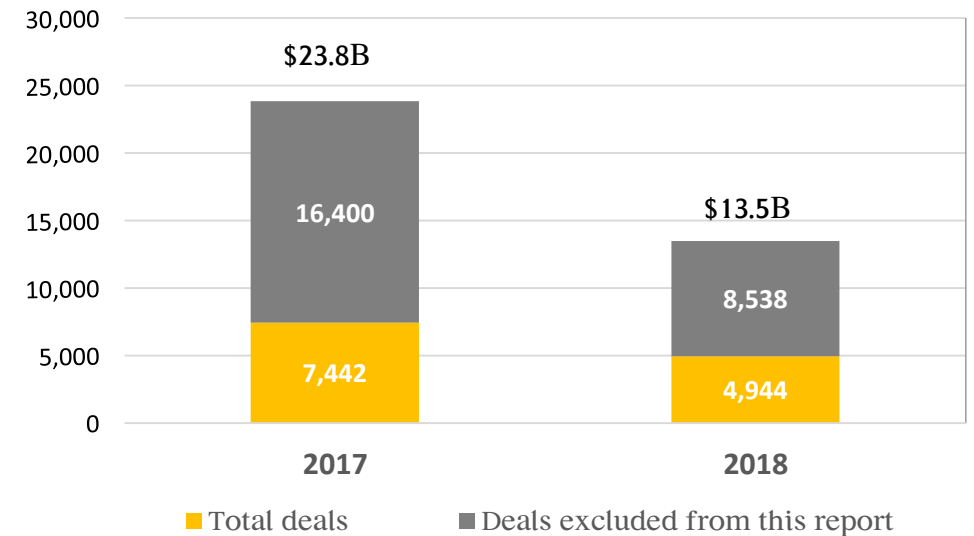
In 2018, the \$4 billion barrier was broken through twice by Israeli Hi-Tech companies.



If taking into account those deals - which were excluded from our present report because they have already had an IPO and were included in previous reports - the overall deal value in 2018 was \$13.5 billion. This figure is still 43% lower than the overall value in 2017 (\$23.8 billion), which was boosted by one mega-deal in which Mobileye was acquired by Intel for \$15.3 billion.

This year, the over-\$1 billion club grew bigger to cover more industries beyond classic tech. Two such deals are notable: Frutarom was acquired by IFF for \$6.4 billion, SodaStream by PepsiCo for \$3.4 billion and Netafim by Mexichem for \$1.5 billion.

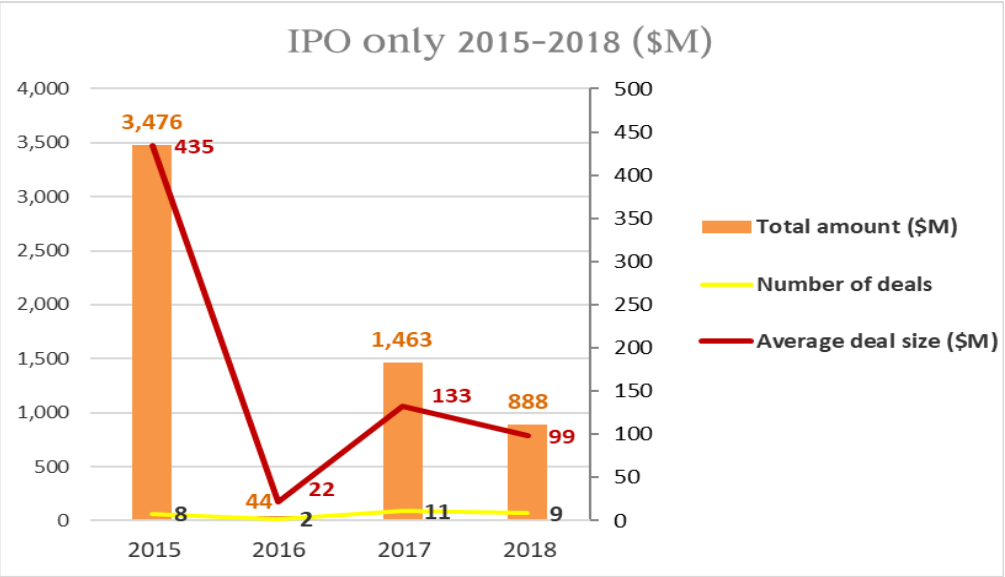
IPOs and M&As in 2017-2018 (\$M)
(including a deals excluded from this report)



Public offering vs. M&As

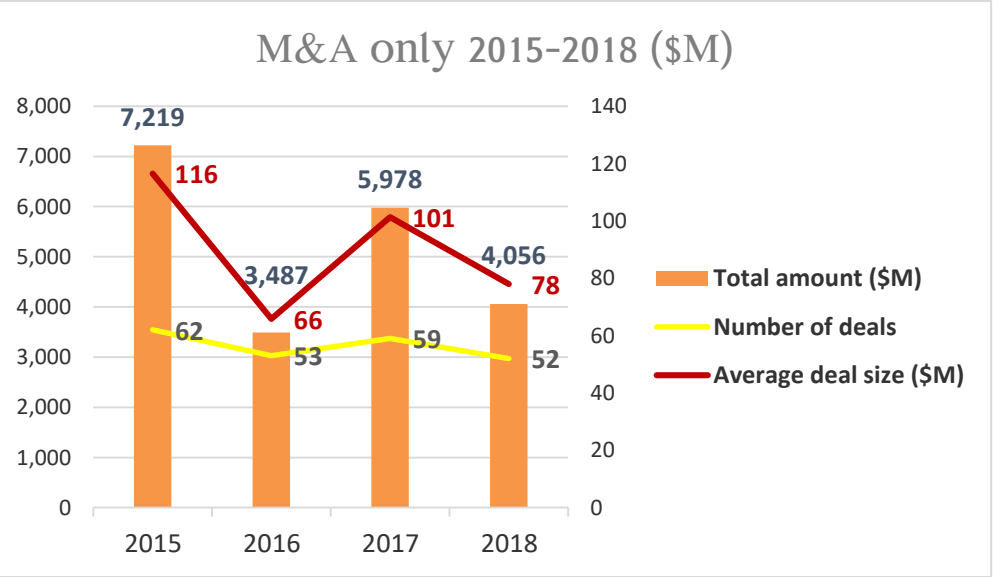
IPO only 2015 -2018

The total value of companies that went public in 2018 was \$888 million. In total, nine companies had an IPO, of which seven are from the life science sector. Five IPOs took place on NASDAQ, while the other four were on ASX in Australia. This year's IPO value is markedly lower than \$1.4 **billion** last year, but there is some preliminary signs that the IPO market is recovering, especially in life science (which, of course, is subject to the trend in the markets).



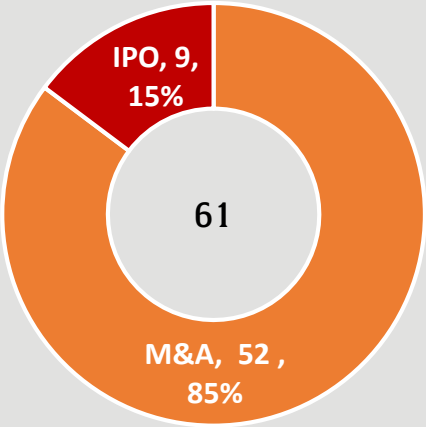
M&As only in 2015 -2018

The total value of M&As (excluding IPOs) in 2018 was \$4 billion. This amount represents a 32% loss of overall deal value relative to 2017 (\$5.9 billion). Additionally, this drop is also evident in the average per-deal value in this year, with a fall to \$78 million from \$101 million last year.

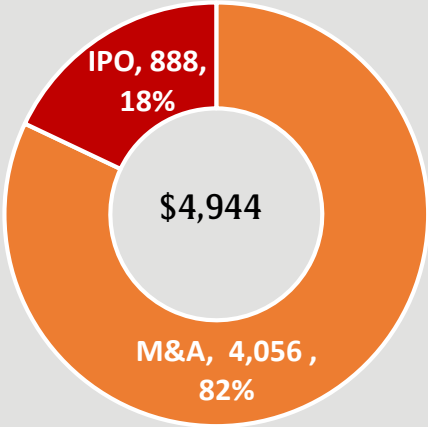


Public Offerings vs. M&As

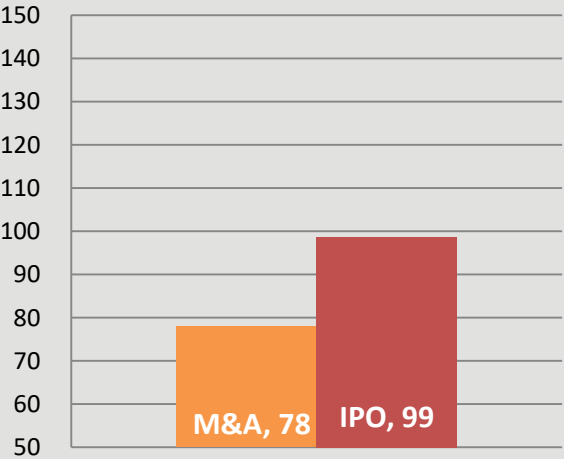
Number of deals

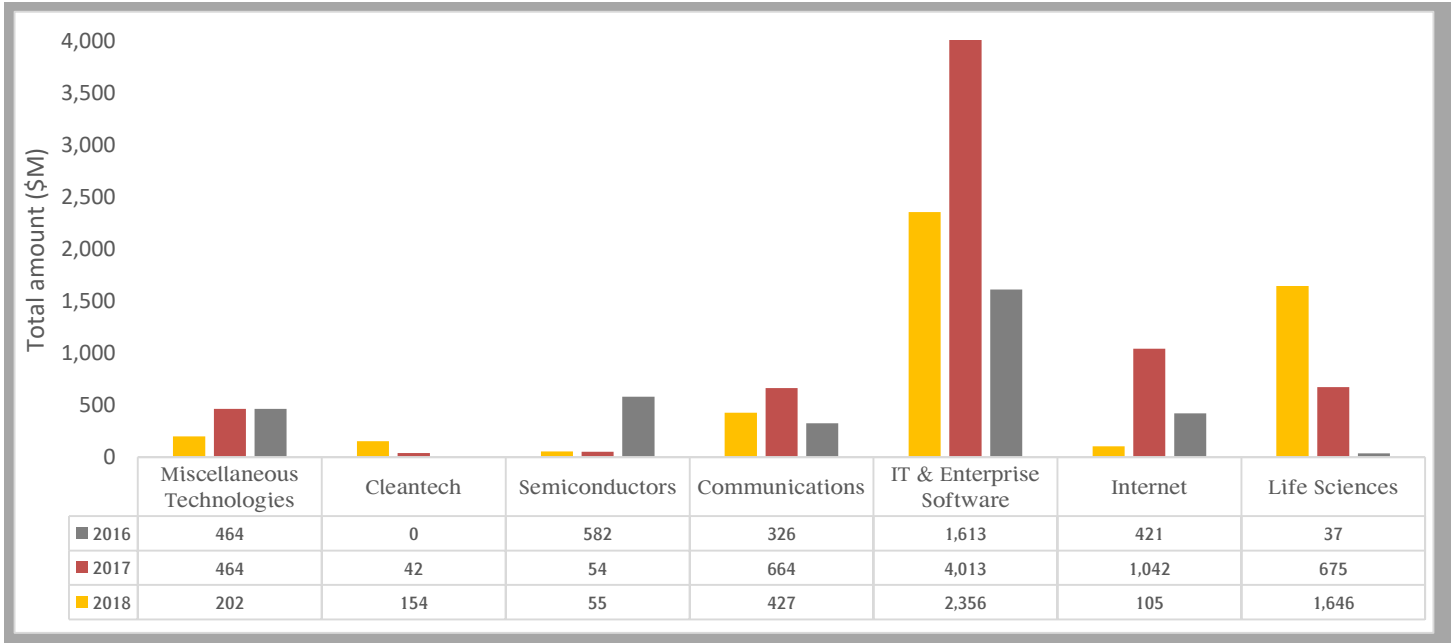


Total amount (\$M)



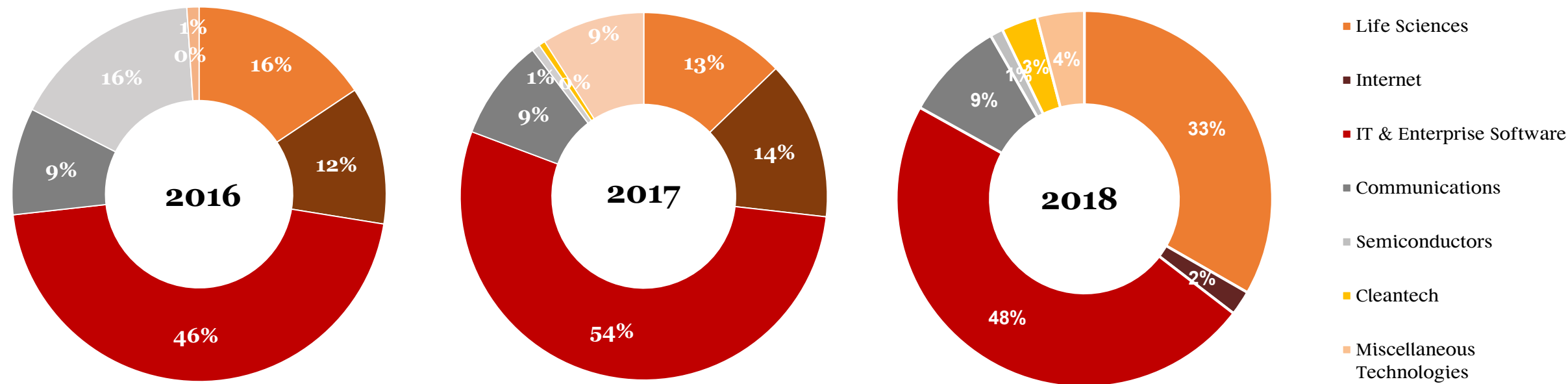
Average deal size (\$M)





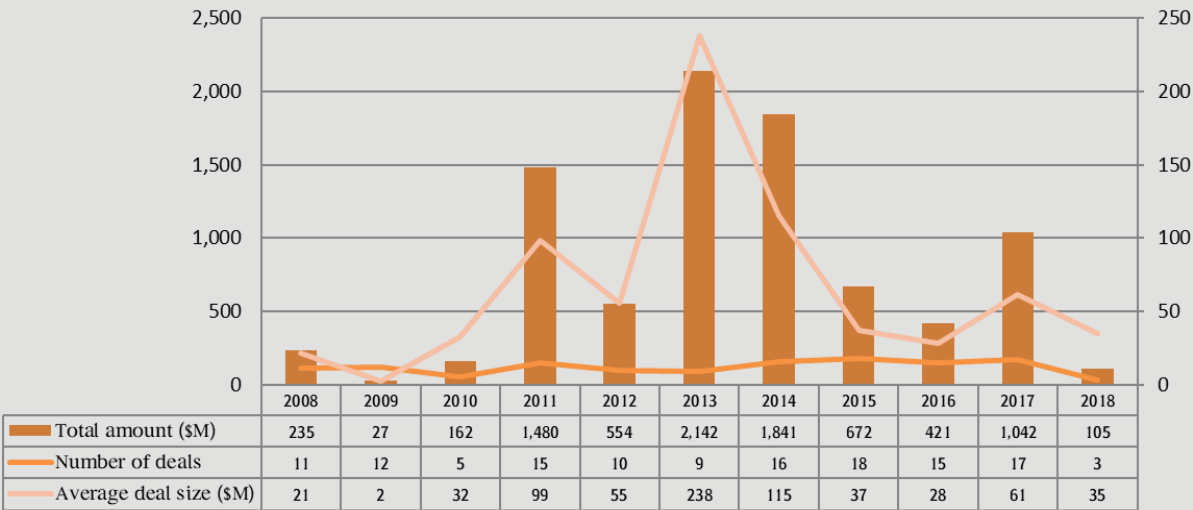
Public offerings and M&As Analysis by sectors

IT & Enterprise Software stayed in the lead in 2018, with \$2.3 billion in deal value. Notably, Datorama was acquired by Salesforce for \$800 million. This market sectors accounts for 48% of all deals, similarly to the situation last year. Another sector, which is about a third of all deals and saw a 2.5-fold growth in 2017 is life science, mainly through IPOs.



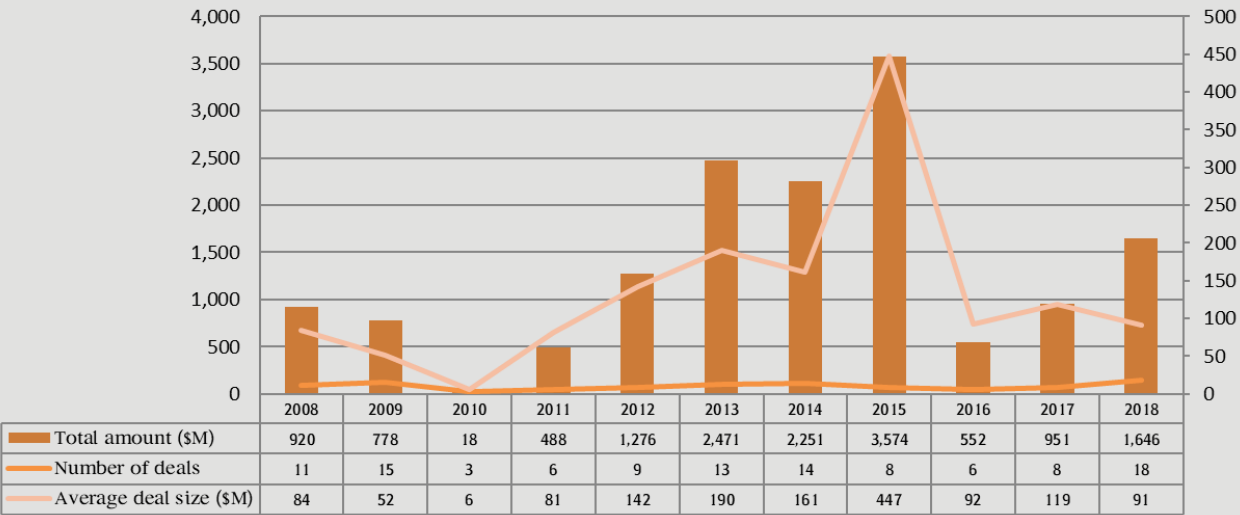
Analysis by sectors

Internet



The internet sector experienced the most significant decline, both in terms of deal number (3) and value (\$105 million). We believe that this weakening results from the facts that less companies now choose to define themselves as active in this sector, since the need for specification has increased over the years.

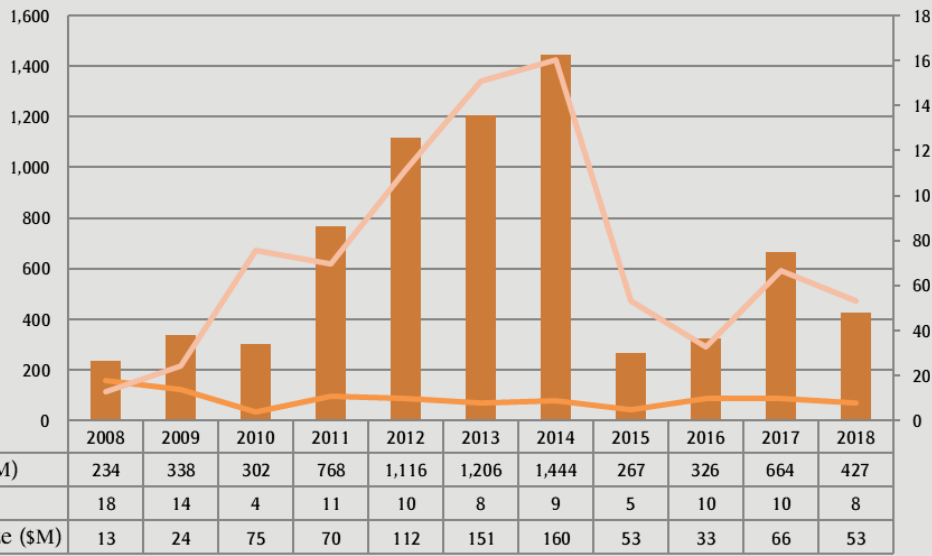
Life Science



Israeli life science companies had a relatively high share of IPOs from among tech companies, similarly to the trend in the US, where life science is the leading sector in IPOs. The positive atmosphere in US markets and the readiness of companies to make deals was also a factor impacting M&As, with both foreign and local firms in the game. Those deals indicate that global markets trust Israeli companies, with an uptrend in this sector.

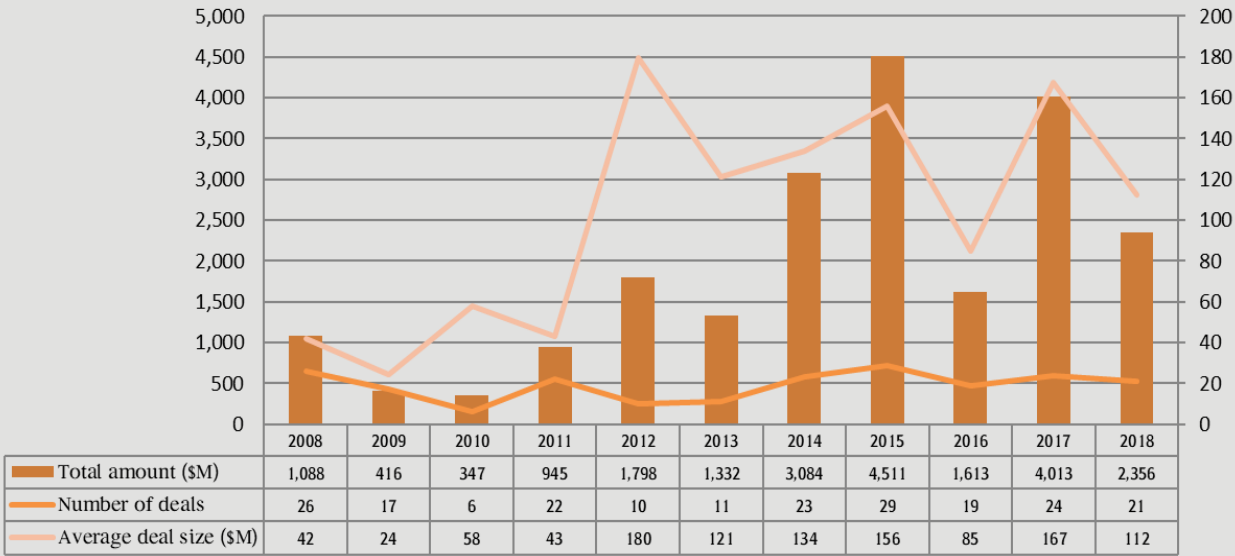
Analysis by sectors

Communications



This sector saw this year one of the more interesting deals, in which NDS - a 30-year old company that offers data security solutions for cable and satellite TV - was bought back by Permira for \$1 billion six year after it sold NDS to Cisco (this deal is not included in this report due to that). Without this deal, the communications sector is shrinking in terms of both total deal value, number of deals and average value per deal.

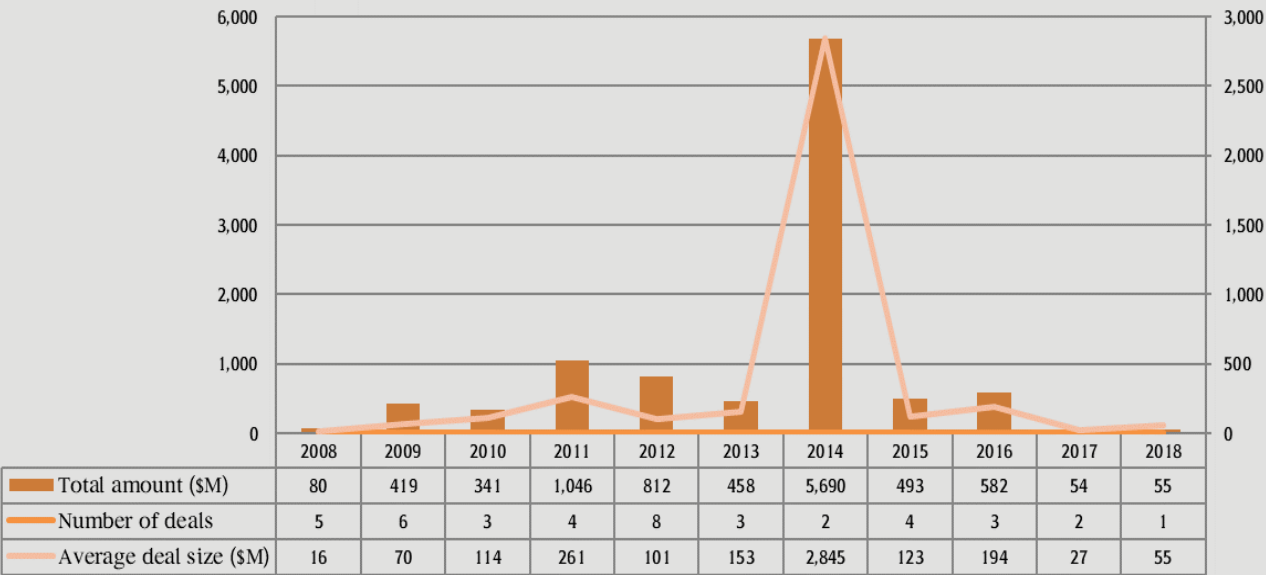
IT & Enterprise Software



This sector continues the lead the pack this year too, with 21 deal, about a third of the overall deal number. Additionally, with \$2,356 million, it contributed almost half of deal value of all sectors combined.

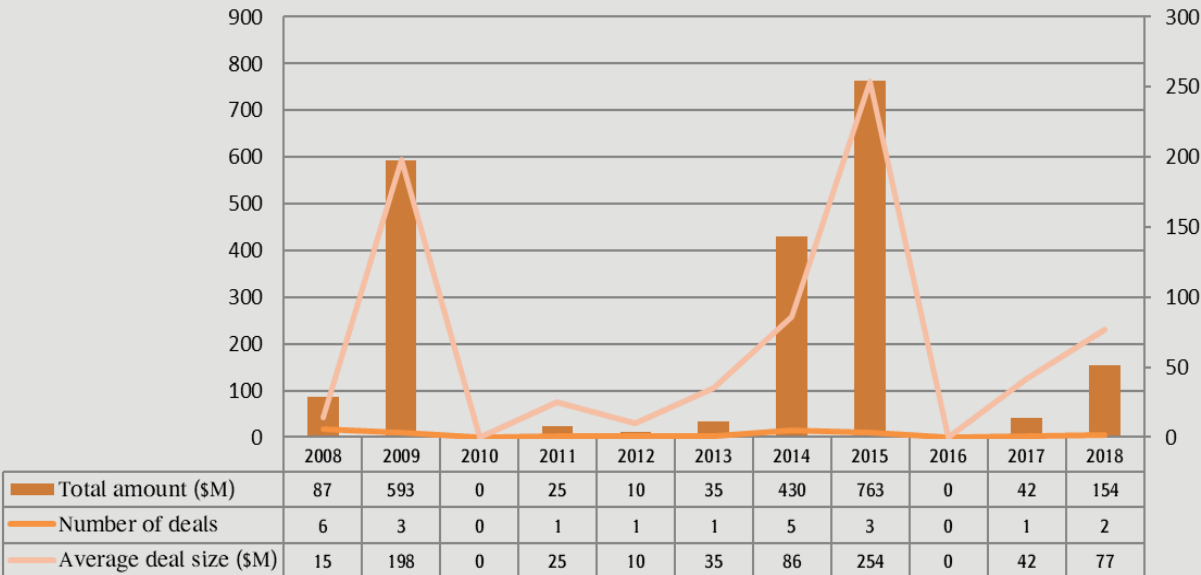
Analysis by sectors

Semiconductors



This sector had the largest deal this year, in which the chip and screen maker Orbotech was sold to KLA-Tencor based on a valuation of \$3.4 billion. However, this deal is not counted in this report because Orbotech went public back in 1984. In another deal, Amimon - a provider of high-quality video streaming solutions - was acquired by Vitec for \$55 million.

Cleantech

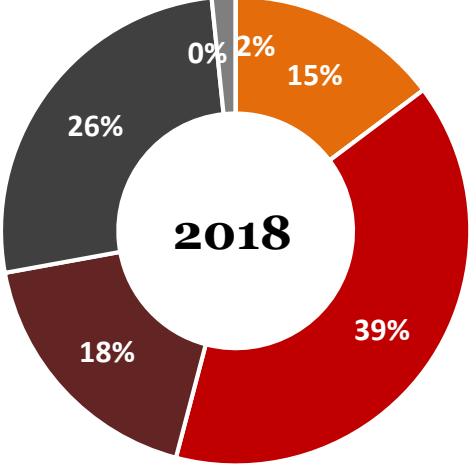
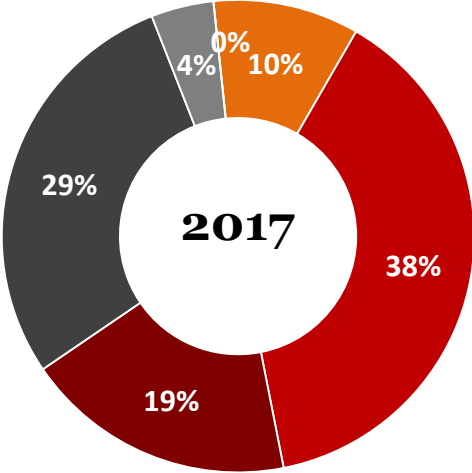
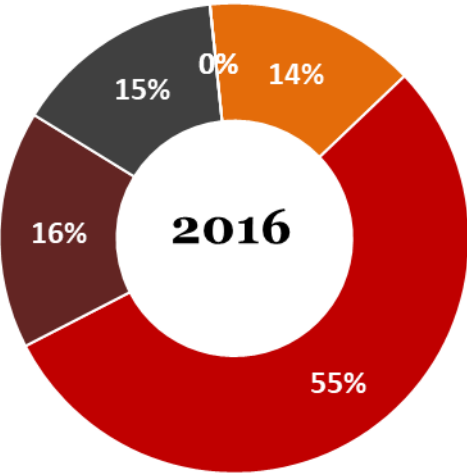
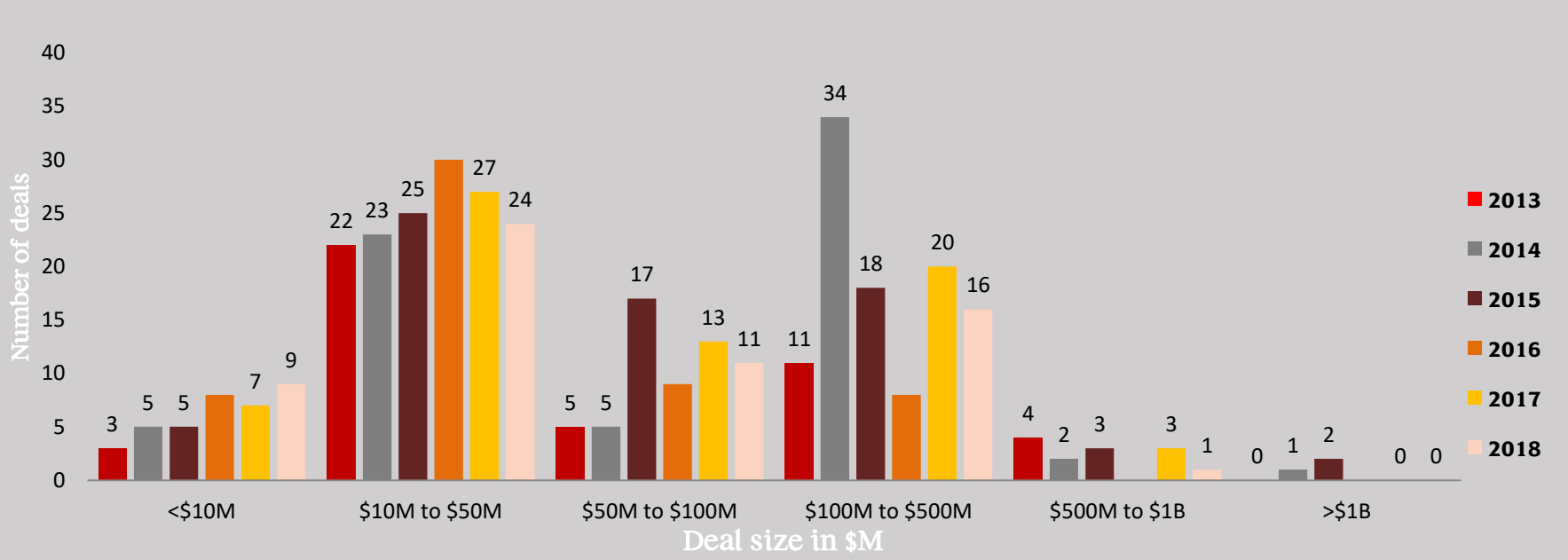


Cleantech remained static, similarly to last year, with only two deals to show for it. Gamatronic was acquired by SolarEdge, but is not included in this report since it has already had an IPO in 1994 on TASE.

Public offerings and M&As

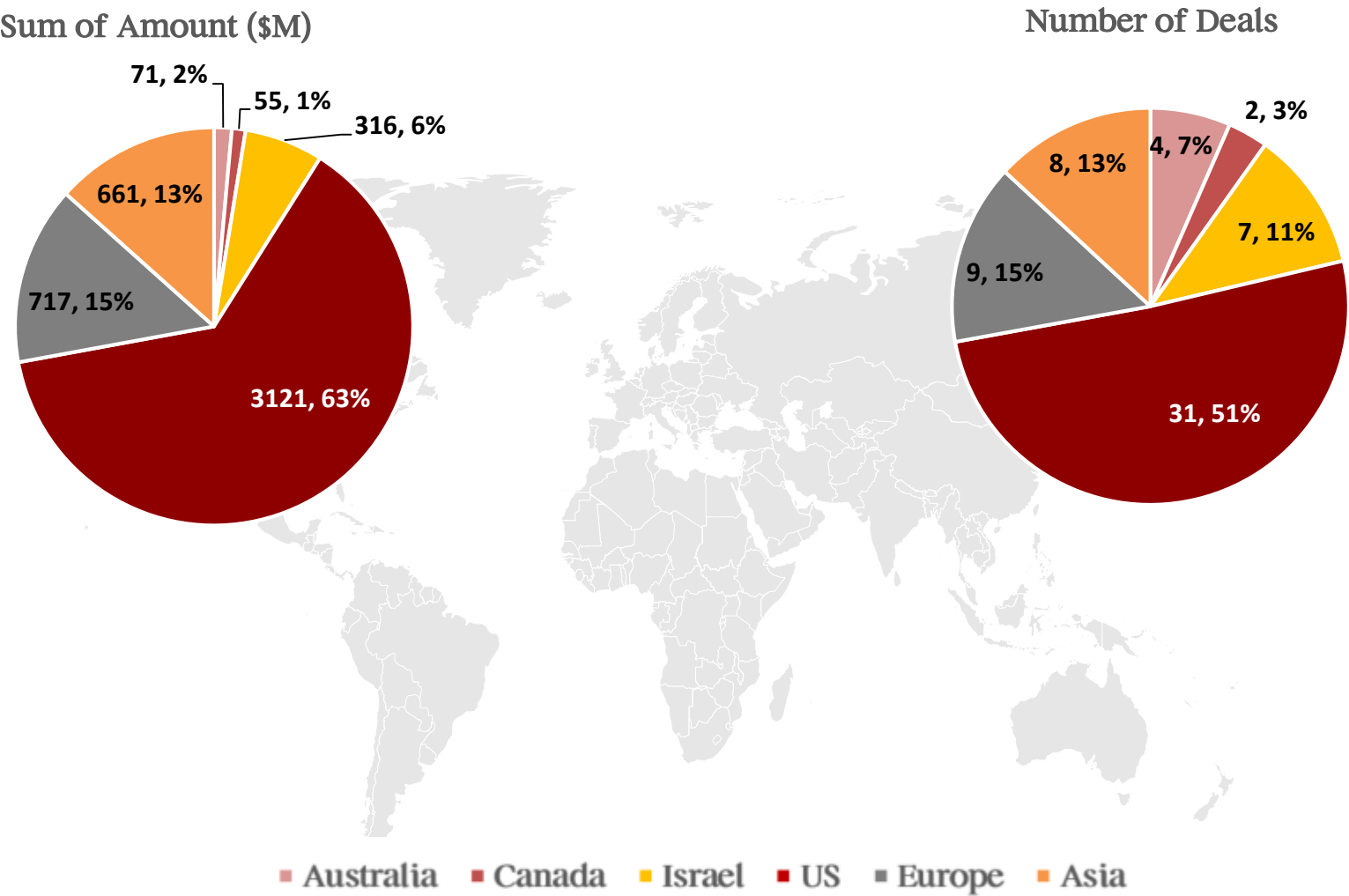
Analysis by deal size

In 2018, a total of 17 deals with value of over \$100 million took place, accounting for 70% of total value for this year, and that compared to the previous year with 23 deals over \$100 million, or 78% of total deal value.




- <\$10M
- \$10M to \$50M
- \$50M to \$100M
- \$100M to \$500M
- \$500M to \$1B
- >\$1B


Public offerings and M&As Buyers by geography in 2018




Top 10 Deals




\$3,400m



Semiconductors



\$2,100m



IT & Enterprise Software



\$1,600m




Life Sciences




\$1,000m



Communications



\$850m



IT & Enterprise Software



\$292m




Life Sciences




\$250m



IT & Enterprise Software



\$250m




IT & Enterprise Software




\$216m



Life Sciences

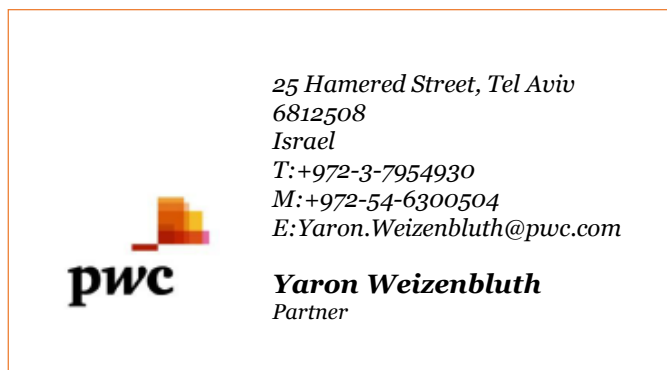


\$210m



Life Sciences

- The report covers both asset acquisition transactions and merger and acquisition deals (M&A, i.e. share acquisition) of Israeli companies or companies with significant affiliation to Israel. An exit is defined as closing of a share acquisition deal, asset acquisition deal or activity by a target company for cash or shares of the buyer. An exit is also an initial public offering (IPO) on any stock exchange. Public offering values in this report are based on the value of the listed company at the opening of the trading session.
- There may be significant differences between this report and the PwC Israel M&As Report. This report does not account for figures that are covered in the M&A report, such as overseas acquisitions by Israeli companies, non-Hi-Tech deals and those with values of less than \$5 million.
- Research data was taken from media publications and Reuters-Thomson databases and are updated through December 15, 2018.



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