The PwC Israel 2017 Hi-Tech Exit

Opening remarks

The past year was quite volatile in terms of Israel Hi-Tech exit activity. The first half of 2017 was low key, and seemed like natural continuation of the quitter 2016, which was more settled relative the sizzling market of several years back. However, in hindsight, that was merely a breather and a staging point for the surge experienced in the second half of the year. 2017 will mainly be remembered as the year of the Mobileye deal. It also redefined how local tech companies are working towards the prized exit in this small, yet dominant, startup nation that is Israel.

What do the number tell us?

Deal value in H1 2017 was $1.8 billion, followed by a whopping $5.5 billion in H2 ($22 billion if taking into account the Mobileye-Intel and NeuroDerm-Mitsubishi deals). Bottom line, deal value was up 110% y/y in 2017, with a total of $7.4 billion ($23.8 billion including NeuroDerm and Mobileye). Interestingly, average value per deal in 2017 was $106 million, or a 66% increase y/y, even if offsetting the two mega deals. And after quite some time, Israeli tech companies made steps this year towards returning to global stock exchanges, completing 11 public offerings with raising $414 million, or a total market cap of $1.5 billion.

So what's behind all this?

It is no secret that the success of Israeli Hi-Tech is often affected by tectonic shifts in global economy, which lately seemed to move in opposite directions. Substantial forces overshadowed the local market early this year, including the limits imposed by Chinese authorities on foreign investments, the expected tax reform in the US, and maybe even the fact that potential buyers needed a rest before re-embarking on their pre-2016 shopping spree. On the other hand, abundant available money in the global economy and interest rates close to zero (despite a few hikes) continue to drive the local tech market. It seems that the positive forces tipped the scale in H2 2017, resulting in not less than 55 buyers (48 in 2016).

Yet, we believe that the above is just one aspect of a broader picture, and real understanding of what happened in 2017 requires to dive deeper. Besides the global influences, we believe it is very obvious that this is also attributed to Israeli entrepreneurs' evolution in recent years. Previously, local players set their sights on a quick exit, but this appears to have changed in 2017, reflecting more than anything a more mature mindset of local technology firms. This year was characterized by more of the larger deals, with average value (excluding Mobileye and NeuroDerm) of $106 million. In fact, 2017 saw 11 acquisition deals of over $250 million, while over-$100 million deals accounted for not less than a third of all transactions (compared with 15% last year). An additional interesting data point concerns the share of Israeli companies in the local M&A scene, with as many as 13 deals. Names like Gett, Top Ramdor Systems, Innovid, Playtika and Radware made acquisition moves with total value of more than $400 million. Undoubtedly, this reflects the way those companies perceive and define themselves, and some might say, even give us a glimpse into the future.

Mobileye

A giant deal – in local terms – was celebrated in 2017: the acquisition of Mobileye by Intel for $15.3 billion. This deal was excluded from this report for two reasons. First, Mobileye was already public when acquired, and was included in a past report following its IPO. Second, as an outlier, it was precluded to avoid distortion that would prevent comparability. For similar reasons, we also excluded acquisition of NeuroDerm by Mitsubishi Tanabe for $1.1 billion. Nevertheless, it is hard to ignore the fact that with those two deals, 2017 is an unprecedented year with $23.8 billion in deal value. Due to that, this report features a separate analysis of how those deals impacted this year. We believe that the impact of Mobileye goes far beyond the scope of this year, as it is an important milestones for the local tech industry in so many ways.

So, what's on the cards?

This year gave us a sharper view of a few processes and trends that have been unfolding in the Israeli tech industry over recent years. Experienced investors who are in it for the longer run, more mature and prudent entrepreneurs who are willing to build and develop sustainable companies, and larger follow-on capital raises, turned 2017, and probably also the years to come, into a fertile bed for highly developed and vibrant exit market.

Concepts like 'shared economy' and 'X as a service' are disrupting established business models, and force huge corporations from all industries to take immediate action to position themselves in the new economy. In this context, Israeli Hi-Tech has not only become more sophisticated, but is now more mature. Notable examples include Signet Jewelers – the large diamond retailer – that acquired R2Net, Honeywell acquired the cyber company NextNine, and Continental acquired Argus Security. Those are some salient examples of the versatility that will characterize the local market, and consequently, the Israeli exit environment in years to come. Over 50 percent of companies that made acquisitions in the past year are new players in the local landscape. It is hard to predict whether another success in the magnitude of Mobileye is possible over the next few years, but, one should not overlook the fact that more global corporations now chose Israel as the place where they can buy the right technologies to help them shape their own futures.

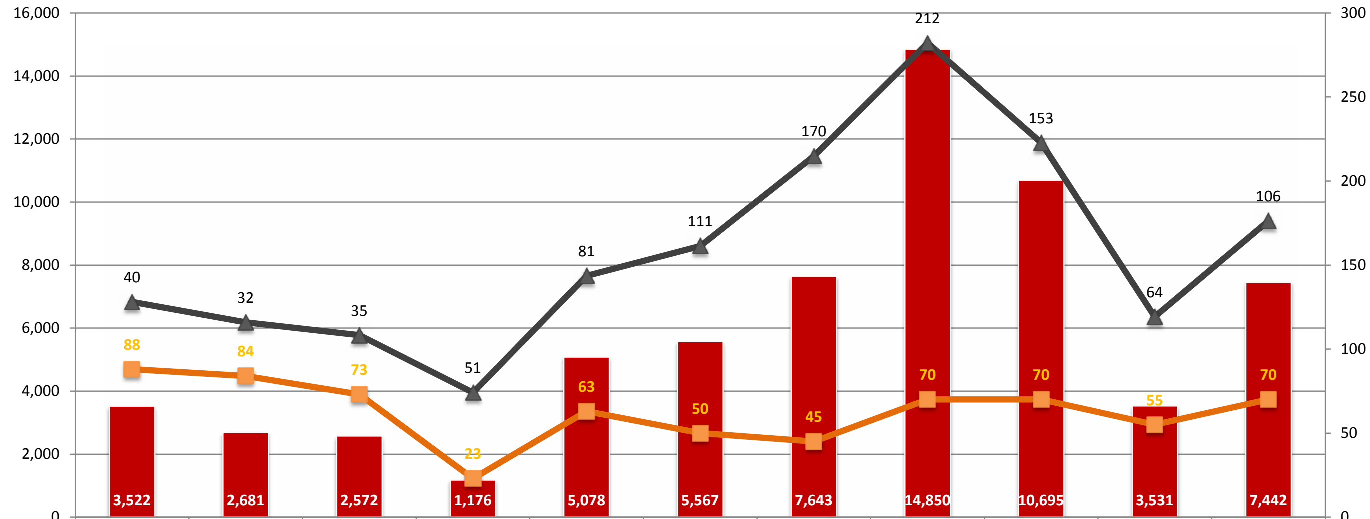
Interesting and exciting years are ahead.

Yw

Yaron Weizenbluth
Hi-Tech Partner,
PwC Israel

Total exits
Public offerings and M&As in 2007-2017 (in million US$)

The total value of exists in the Israeli tech market (M&As and public offerings) was $7.4 billion, up 110% y/y ($3.5 billion).
70 exits took place in 2017, up from only 55 deals in 2016. From a broader perspective, this constitutes a return back to the levels seen in 2014 and 2015, with 70 exits each. The average exit deal value was $106 million in 2017, from $64 million last year.
Further, the Israeli market twice broke the $1 billion mark, thanks to Mobileye that was acquired by Intel for $15.3 billion and NeuroDerm that was acquired by Mitsubishi Tanabe Pharma for $1.1 billion.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total amount in $M	3,522	2,681	2,572	1,176	5,078	5,567	7,643	14,850	10,695	3,531	7,442
Avreage deal size in $M	40	32	35	51	81	111	170	212	153	64	106
Number of deals	88	84	73	23	63	50	45	70	70	55	70

Total amount in $M — Avreage deal size in $M — Number of deals

Notes to this report:

* The Mobileye and NeuroDerm deals are not included in this report, as those companies went public in 2014 in the US and were presented in our report for that year. The impact of the Mobileye and NeuroDerm deals will be presented in a separate report that will cover all M&As.

* Two additional deals are not included in this report: the acquisition of SimpliVity by HPE for $650 million, and of Kite Pharma by US pharma giant Gilead for $11.9 billion. Those companies have Israeli orientation, but are essentially US corporations.

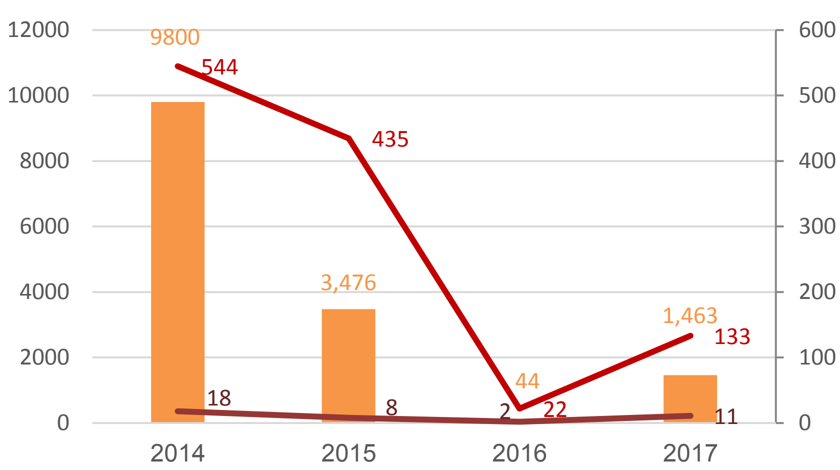
* The report only covers exits of over $5 million in value.

* There may be significant differences between this report and the PwC Israel M&A Report, as the present publication does not cover a number of data points that are included in the other, such as the Playtika deal, which was performed last year, cross-border acquisitions by Israeli companies, non-tech deals and deal of less than $5 million in value.

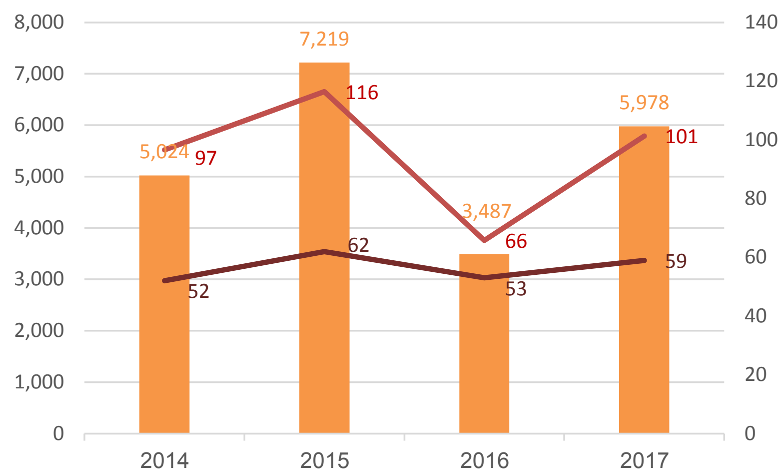
Public offerings vs. M&As

Eleven public offerings of Israeli tech companies took place in 2017 on different stock exchanges worldwide. After a long stretch of declining public offering numbers, 2017 marked a shift in this trend, and the number of local technology companies opting for exiting through a public offering is on the rise.
The largest equity issue this years was completed by ForeScout, which raised $116 million on NASDAQ, reflecting a market cap of $800 million.
Initial public offerings were completed on exchanges in a variety of markets such as Sweden, the UK, Australia, the US and Israel. We expect this trend to continue into 2018, with more tech offerings, including biomed companies. Additionally, we believe that new markets like Canada and East Asia markets such as Honk Kong and Singapore are an attractive option for Israeli IPOs.

IPOS only 2014-2017 ($M)



M&AS only 2014-2017 ($M)



Total amount ($M) — Number of deals — Average deal size ($M)

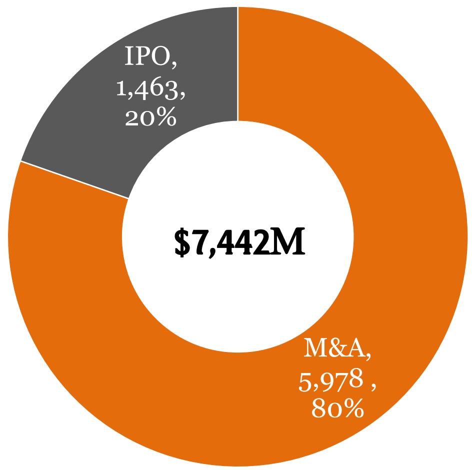
Public offerings were 20% of all deals in 2017. Indeed, this is an increase over last year's 16%, but it remains relatively subdued. We believe that as more companies will gravitate to the public option, their portion of total deals will increase as well.

Total value of deals (excluding public offerings) in 2017 ($6 billion) reflects a 71% jump y/y ($3.4 billion in 2016).

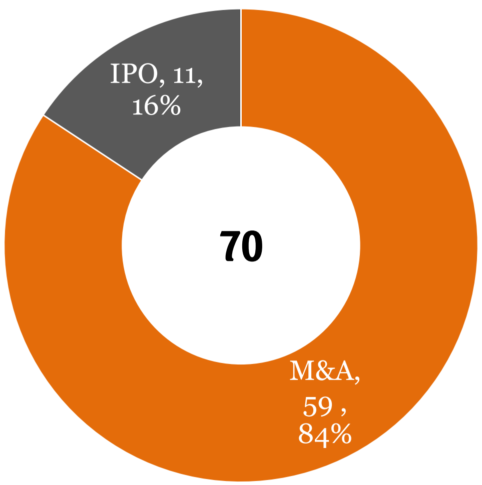
Public offerings vs. M&As -Continue

With the two over-$1 billion deals, total deals in 2017 was $23.8 billion.
This is more than twice the same figure in 2016, with $9.6 billion (including outlier deals like Xura, Playtica, EZChip and RRMedia), and is 123% above 2015.

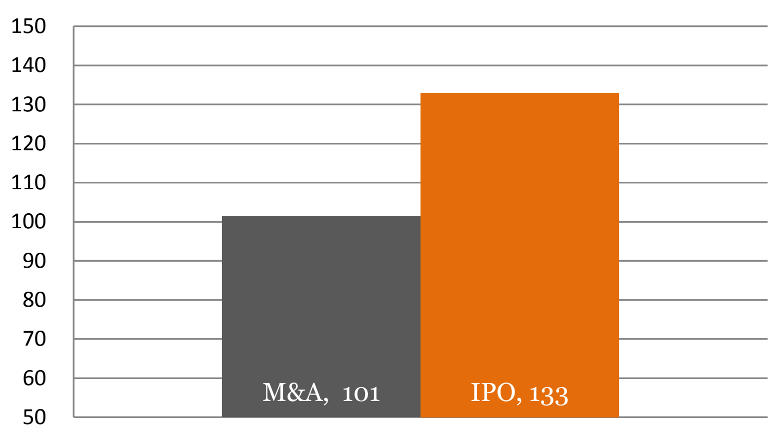
Total amount (in $ millions)



Number of deals



Average deal size (in $ millions)



Public offerings and M&As continue

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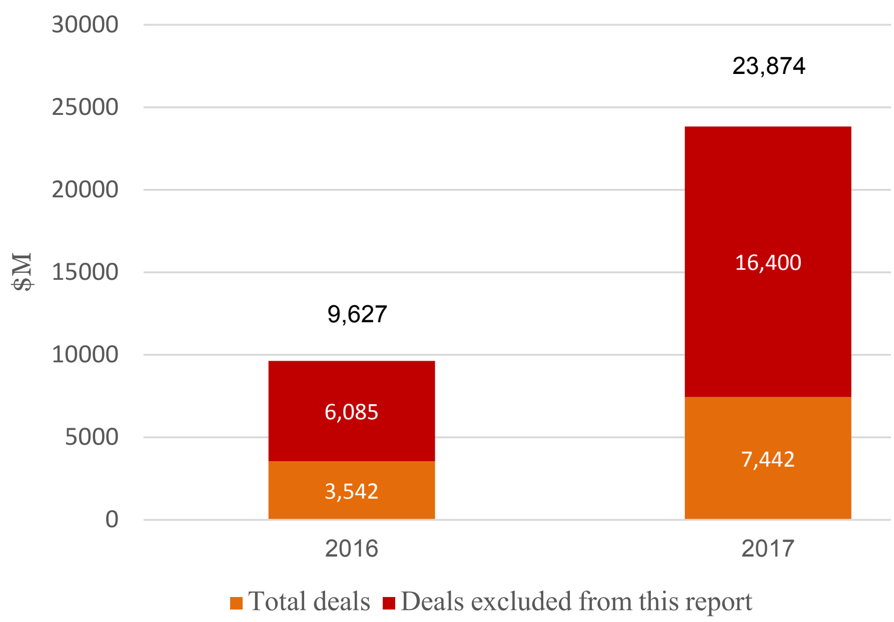
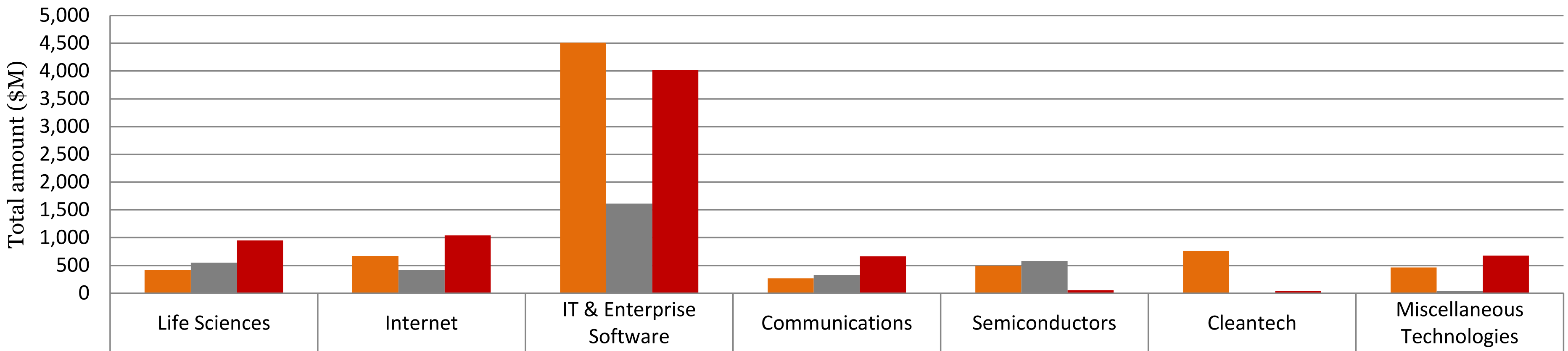
IPOs and M&As in 2016-2017 ($M)
(including a deal excluded from this report)



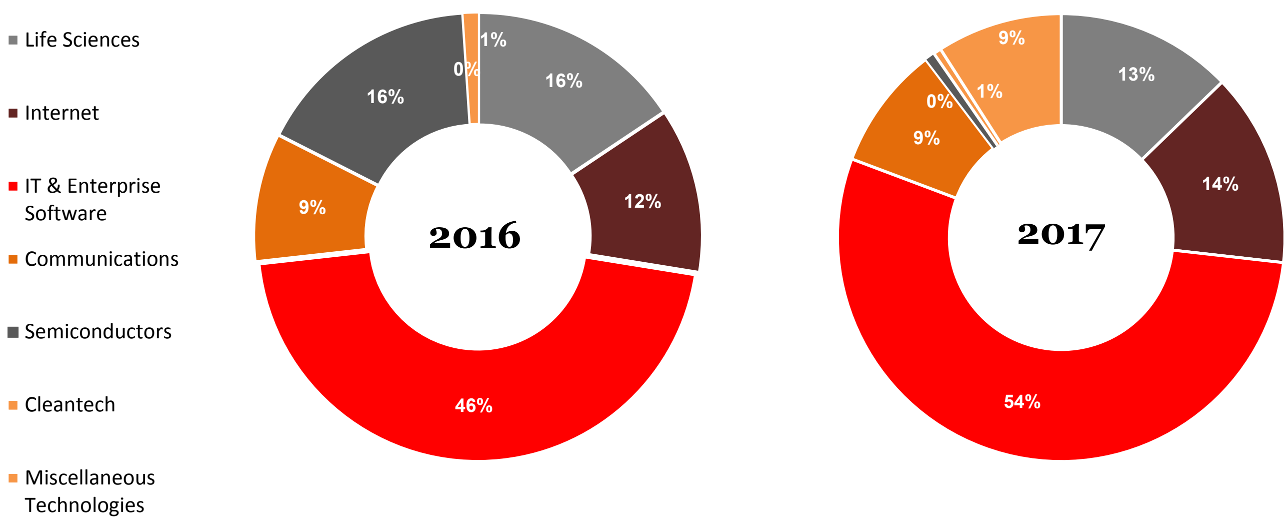
Public offerings and M&As in 2014-2017 (in US$ million)

Analysis by sectors (general)

In keeping with the trend seen in previous years, almost half of all exits in 2017 are in IT & Enterprise software. This can be attributed, among other things, to the number of large cyber deals this year. Though those segments are somewhat saturated, demand still exists for technologies that are geared to specific verticals, like automotive, finance and industry 4.0.

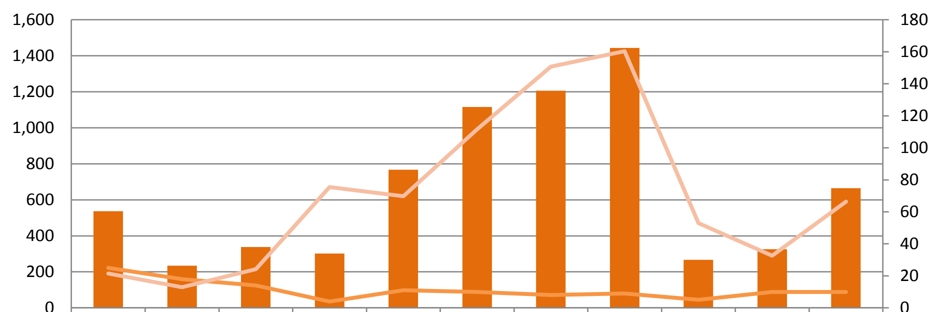


	Life Sciences	Internet	IT & Enterprise Software	Communications	Semiconductors	Cleantech	Miscellaneous Technologies
2015	416	672	4,511	267	493	763	464
2016	552	421	1,613	326	582	0	37
2017	951	1,042	4,013	664	54	42	675



Analysis by sectors (detailed)

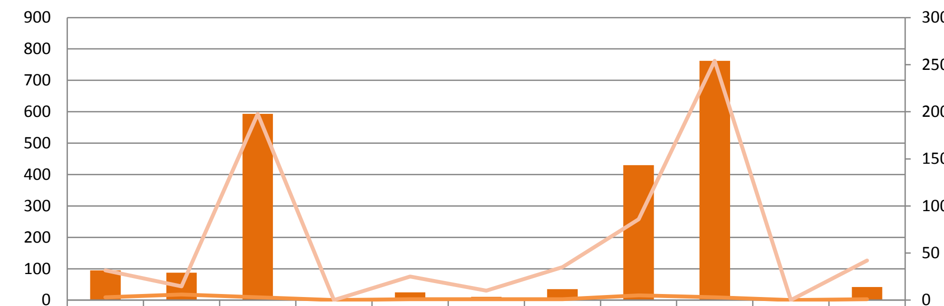
Communications



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total amount ($M)	537	234	338	302	768	1,116	1,206	1,444	267	326	664
Number of deals	25	18	14	4	11	10	8	9	5	10	10
Average deal size ($M)	21	13	24	75	70	112	151	160	53	33	66

In 2017, the number of deals in the communications sector was identical to 2016 (10), yet total deal value doubled, thanks to greater value per deal.

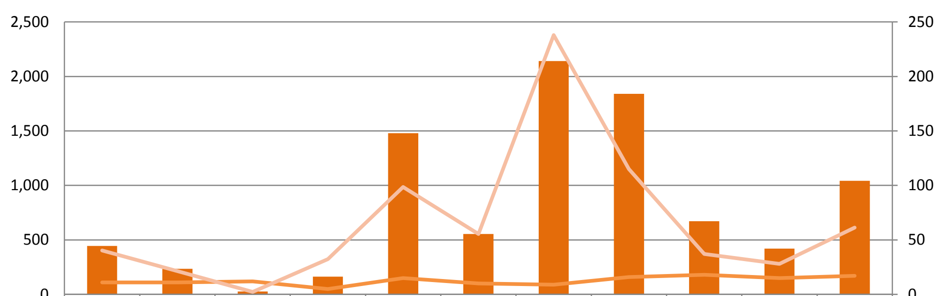
Cleantech



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total amount ($M)	95	87	593	0	25	10	35	430	763	0	42
Number of deals	3	6	3	0	1	1	1	5	3	0	1
Average deal size ($M)	32	15	198	0	25	10	35	86	254	0	42

The only cleantech company to exit this year was Brenmiller Energy, an energy storage company, which was listed on Tel Avis Stock Exchange (TASE). The cleantech industry has been slowing down significantly. This might be driven by a number of reasons, including dependency on regulatory support and need for intensive capital investments. Those reasons made cleantech less of an attraction to investors. Additionally, venture capital funds that specialized in that industry have reduced or stopped investments in cleantech.

Internet

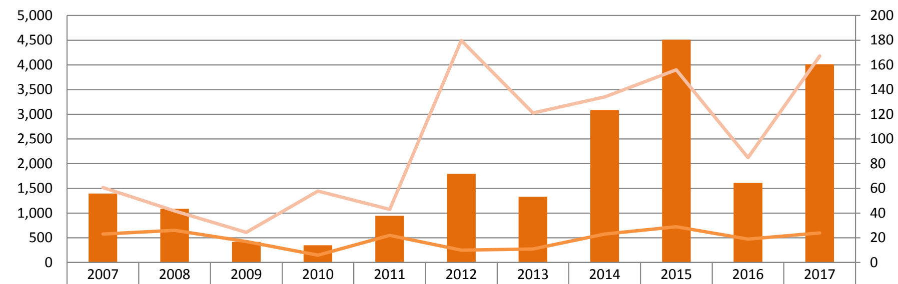


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total amount ($M)	444	235	27	162	1,480	554	2,142	1,841	672	421	1,042
Number of deals	11	11	12	5	15	10	9	16	18	15	17
Average deal size ($M)	40	21	2	32	99	55	238	115	37	28	61

Internet deals experienced growth, mainly thanks to two large deal: the acquisition of R2Net by Signet Jewelers for $329 million and of DoubleVerify by Providence Equity Partners for $200 million.

Analysis by sectors (detailed)-Continue:

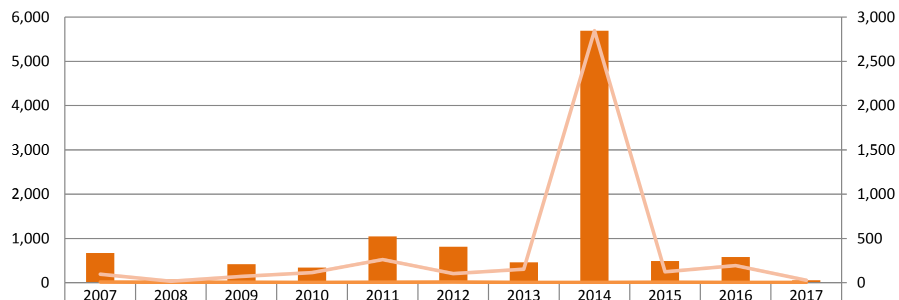
IT & Enterprise Software



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total amount ($M)	1,395	1,088	416	347	945	1,798	1,332	3,084	4,511	1,613	4,013
Number of deals	23	26	17	6	22	10	11	23	29	19	24
Average deal size ($M)	61	42	24	58	43	180	121	134	156	85	167

The growth in corporate computing in 2017 stems primarily from the high profile of cyber, cloud and automotive, attracting buyers from a wide spectrum of industries. One prominent deal, combining automotive and cyber, was the acquisition of Argus Security by Continental for an estimated $430 million.

Semiconductors

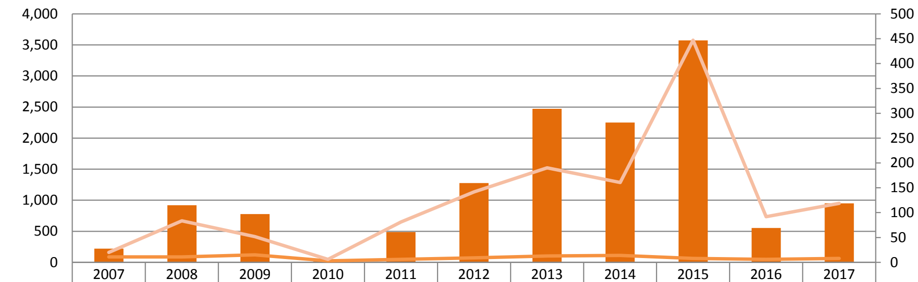


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total amount ($M)	672	80	419	341	1,046	812	458	5,690	493	582	54
Number of deals	7	5	6	3	4	8	3	2	4	3	2
Average deal size ($M)	96	16	70	114	261	101	153	2,845	123	194	27

Semiconductors has been stagnant for several years now. The Mobileye-Intel deal demonstrates that companies in this market are seeking new verticals. However, with Mobileye excluded, this segment is the only one that suffered a drop in both number of deal and their value.

* The following chart does not include the Mobileye deal.

Life Sciences



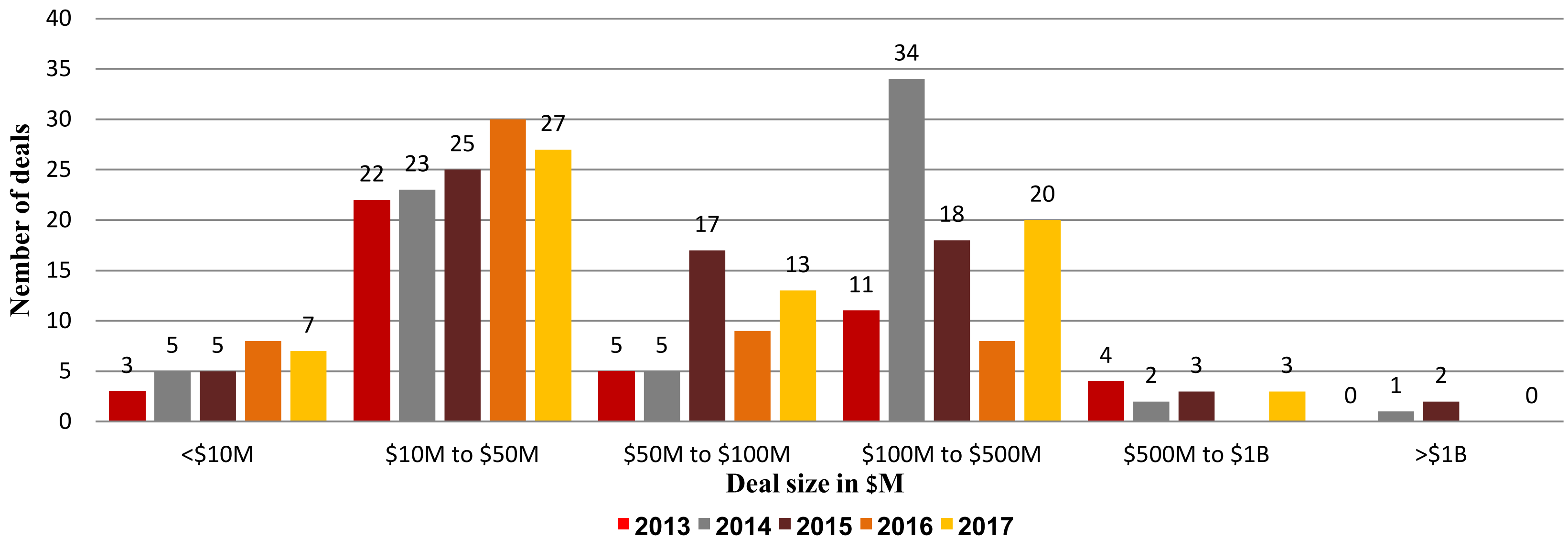
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total amount ($M)	220	920	778	18	488	1,276	2,471	2,251	3,574	552	951
Number of deals	11	11	15	3	6	9	13	14	8	6	8
Average deal size ($M)	20	84	52	6	81	142	190	161	447	92	119

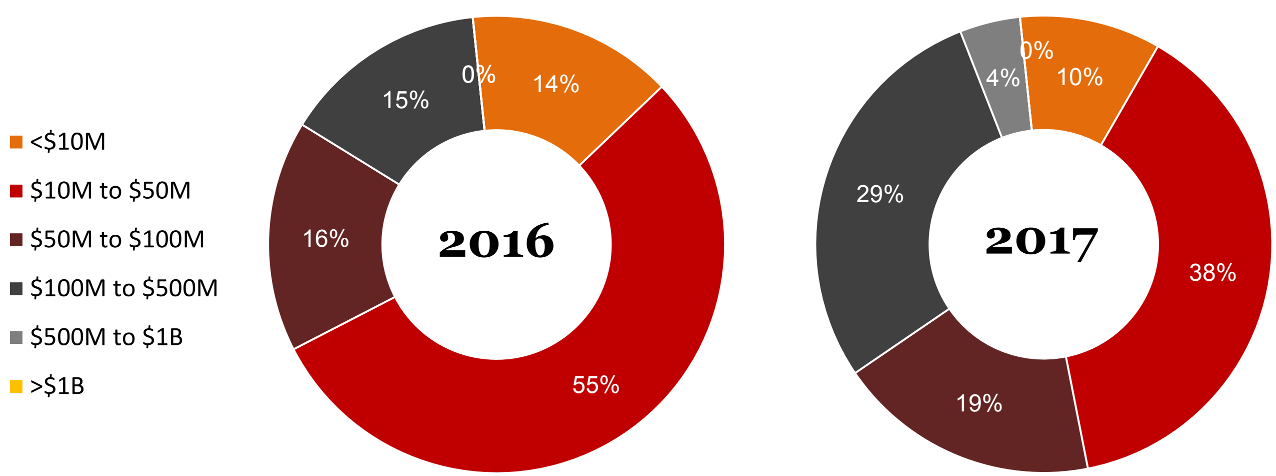
Pharma and life sciences deals grew in 2017 in terms of both deal count and value. Last year was characterized by uncertainty due to pressures to reduce drug prices. This led many companies and investors to sit on the sidelines with growing amounts of cash. While big pharma companies has not yet fully returned to the deal market, 2017 marked a revival of technology-related investments, mainly medical devices and service. We expect that this uptrend will continue in 2018, as pharma investors come back.

* The following chart does not include the NeuroDerm deal.

Public offerings and M&As in 2013-2017 (in US$ million)
Analysis by deal size:

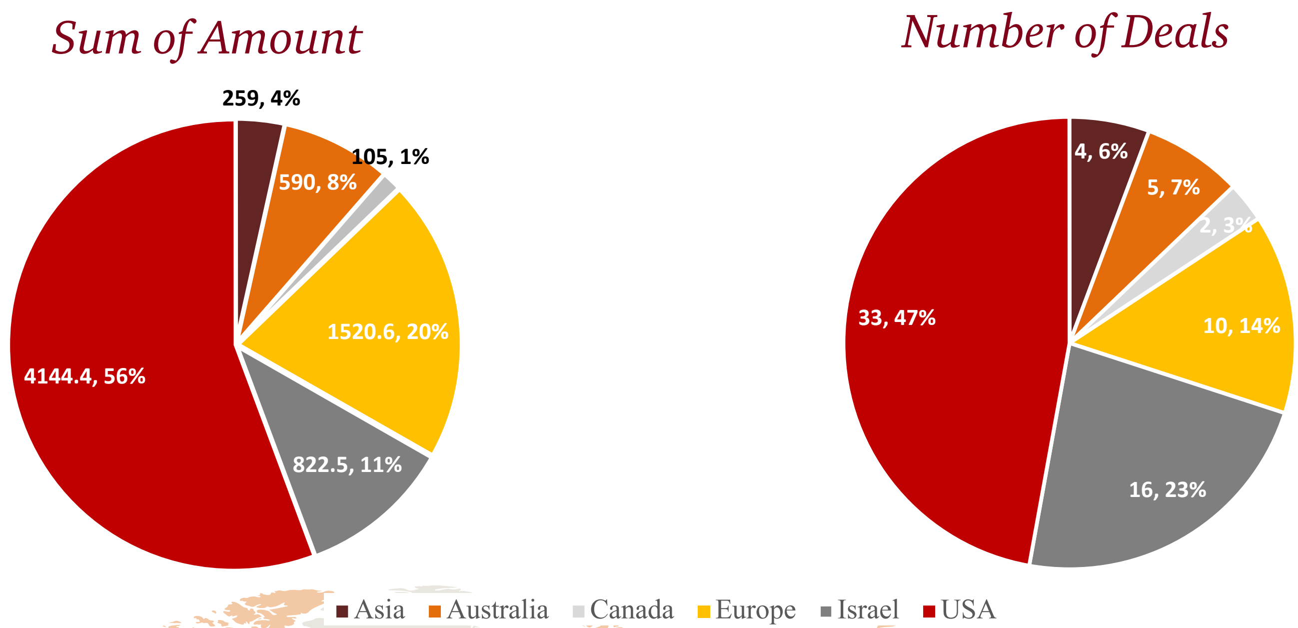
The proportion of deals of over $100 million went up, reaching 33% of total deals, double the number in 2016 (16%).
However, the $10-$50 million bracket continues to lead this year, with 38%.
The following chart does not include Mobileye and NeuroDerm.A total of 85% of deals had value of less than $100 million.

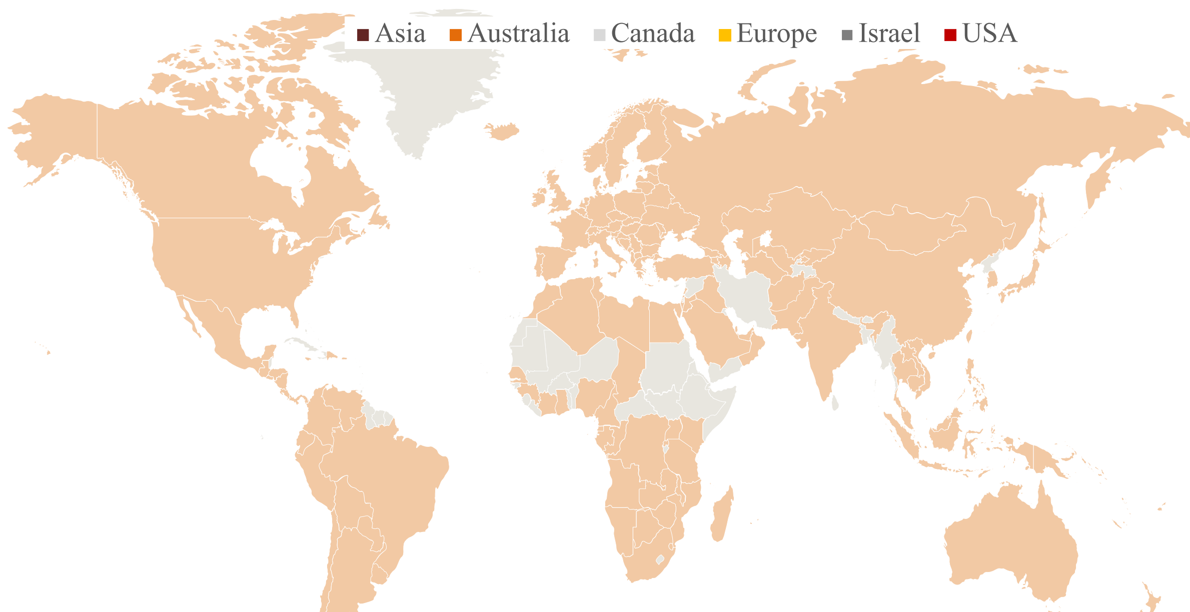




Public offerings and M&As buyers by geography in 2017

US buyers still account for the majority of deals, with as many as 33 deals and $4.1 billion. This is testament to the level of interest and confidence of US investors and corporations in the local tech industry. It also shows that Israeli tech continues to be very much orientated towards the US market, highlighting that it is the most relevant, both in terms of target markets and exit strategy.





Top10 Deals

Company	Deal value	Acquirer	Sector
Mobileye	$15,387m	intel	Semiconductors
NeuroDerm	$1,103m	Mitsubishi Tanabe Pharma America	Life Science
ForeScout	$800m	Nasdaq	IT & Enterprise Software
Plarium	$500m	Aristocrat	IT & Enterprise Software
Argus Cyber Security	$430m	Continental	IT & Enterprise Software
Syneron	$382m	Apax Partners	Life Science
Gigya	$350m	SAP	IT & Enterprise Software
valtech_	$340m	Edwards	Life Science
R2Net	$329m	Signet Jewelers	Internet
Skycure Mobile Threat Defense	$275m	Symantec	IT & Enterprise Software

For further information

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** 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 either 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 a public offering (initial, follow-on, etc.) on any stock exchange. Public offering values in this report are based on the value of the listed company at initial trading.

*** This report only covers exits with value of over $5 million.*

**** Research data was taken from Reuters-Thomson and are up to November 30, 2016 (OneSource) and November 30, 2017 (Eikon) and information published in the media.*