The PwC Israel 2013 Hi-Tech Exit Report

A boom in Israeli hi-tech exits, with $7.6B in 2013

M&A, deals accounted for $6.45B; IPOs for $1.2B
A historically good year for the Israeli hi-tech in 2013

This year we witnessed $6.45B in M&A deals, representing a 16% increase over 2012. Mega deals are also a prominent feature of 2013, with the three largest deals accounting for not less than $2.6B. The per-deal average of $859M. The total value of IPOs was $1.2B, and an average IPO of $198M. Combined, this year's exits totaled $7.6B, with an average of $170M per deal. Breaking down the data into sectors, life sciences are ahead this year with $2.5B in exits and an average deal of $190M.

Followed by the internet sector with $2.1B and an average exit of $238M.

The average exit
The most notable piece of information in this report is the average amount per deal, $170M, which is the highest in more than a decade. This figure is exceptionally higher thanks to the interplay of several factors. First, the deal market is active and competitive. Global tech giants are chasing innovative technology. They do so partly by making huge investments in their own R&D efforts, but more so, by buying innovative technologies. In this current point in time, buyers have the liquidity to make such acquisitions a reality, and most deals are indeed paid for in cash. Historical trends show that the window of opportunity for M&A deals opens and shuts cyclically, given global events that are much larger than anything the Israeli hi-tech industry can have impact on. Since the sentiment in the M&A market is far beyond our control, the most important factor is that the local industry has an abundance of companies that reached sufficient maturity. Most buyers have a taste for more mature companies, hence more expensive ones, as opposed to buying cheap companies with unproven technologies. Mature companies already have significant sales to show for, and have already proved their abilities. Experience shows that the integration of most immature companies into the buyer is unsuccessful, turning the whole deal sour. Be this maturity technological, or in terms of the number of users, sales or market share, the Israeli market has learned that patience pays off. With more and more success stories, entrepreneurs and investors have more appetite to take companies up to much higher value points then in the past.

The high exits allow investors to raise more money for the Israeli hi-tech, bring more investors and facilitate new companies to keep this dynamic market continue going strong, given that today’s technology will become old faster than ever before.

IPOs… at last
It’s been a while since we have seen tech IPOs. The main reasons for the shift this year are the more favorable times in the global financial markets and especially in the US tech IPO market, together with sufficient levels of maturity of hi-tech companies. In Israel, where the exit culture gets so often under fire, those IPOs may herald a new era. The companies that choose this path will be able to later become the large multinationals that we have been all looking forward to in recent years. Until this happens, those IPOs probably provide the highest value that those companies can attract. The IPOs give companies a financing boost, and a platform for the continuous financing needed to achieve growth on their way to building that much anticipated large Israeli corporation.

Looking ahead
As 2014 draws near, the Israeli hi-tech has numerous mature and innovative market-leaders. The largest international buyers have R&D outposts in Israel and are scouting for their next acquisition. Finally, quite a few Israeli companies are at various stages of going public on the largest world markets. Given a reasonable economic environment in 2014 and markets remaining receptive to new tech IPOs, we are heading into an exciting new year. Surely, it will be difficult to eclipse the results of 2013, but if the IPO trend continues, even a modest number of IPOs can make 2014 into another peak year.

I wish you all a happy and successful new exit year,

Yours,

Rubi Suliman, Partner, Hi-Tech Leader, PwC Israel
Total annual exits 2005-2013 (in millions $)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Amount ($M)</th>
<th>Number of deals</th>
<th>Average deal size ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2,740</td>
<td>76</td>
<td>36</td>
</tr>
<tr>
<td>2006</td>
<td>10,000</td>
<td>93</td>
<td>108</td>
</tr>
<tr>
<td>2007</td>
<td>3,522</td>
<td>88</td>
<td>40</td>
</tr>
<tr>
<td>2008</td>
<td>2,681</td>
<td>84</td>
<td>32</td>
</tr>
<tr>
<td>2009</td>
<td>2,572</td>
<td>73</td>
<td>35</td>
</tr>
<tr>
<td>2010</td>
<td>1,176</td>
<td>23</td>
<td>51</td>
</tr>
<tr>
<td>2011</td>
<td>5,078</td>
<td>63</td>
<td>81</td>
</tr>
<tr>
<td>2012</td>
<td>5,567</td>
<td>50</td>
<td>111</td>
</tr>
<tr>
<td>2013</td>
<td>7,643</td>
<td>45</td>
<td>170</td>
</tr>
</tbody>
</table>
Claudio Yarza, Leader of the Life Science practice at PwC Israel commented on the exit results of the Life science segment:

The hot market for life science IPOs is reflected in the record outcomes of the Israeli life sciences industry exits during 2013.

An increase in the number of deals, together with a greater average deal size, resulted in the best ever year for the industry in terms of total exit values.

The continuation of the current trend though is uncertain, although we see other Israeli companies with interesting pipeline seeking a deal or queuing up for an IPO, this fact is clouded by certain preliminary signs of a cooling down of the life sciences IPO market in the US.
<table>
<thead>
<tr>
<th>Year</th>
<th>Life Sciences</th>
<th>CleanTech</th>
<th>Communication</th>
<th>Semiconductors</th>
<th>IT &amp; Enterprise Software</th>
<th>Internet</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>332</td>
<td>268</td>
<td>644</td>
<td>332</td>
<td>644</td>
<td>742</td>
</tr>
<tr>
<td>2006</td>
<td>742</td>
<td>574</td>
<td>1,22</td>
<td>724</td>
<td>1,22</td>
<td>1,000</td>
</tr>
<tr>
<td>2007</td>
<td>1,18</td>
<td>1,395</td>
<td>444</td>
<td>1,18</td>
<td>444</td>
<td>1,000</td>
</tr>
<tr>
<td>2008</td>
<td>80</td>
<td>95</td>
<td>1,395</td>
<td>95</td>
<td>95</td>
<td>1,000</td>
</tr>
<tr>
<td>2009</td>
<td>419</td>
<td>87</td>
<td>1,395</td>
<td>419</td>
<td>87</td>
<td>1,000</td>
</tr>
<tr>
<td>2010</td>
<td>341</td>
<td>599</td>
<td>1,395</td>
<td>341</td>
<td>599</td>
<td>1,000</td>
</tr>
<tr>
<td>2011</td>
<td>1,046</td>
<td>0</td>
<td>1,395</td>
<td>1,046</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>2012</td>
<td>812</td>
<td>3</td>
<td>1,395</td>
<td>812</td>
<td>3</td>
<td>1,000</td>
</tr>
<tr>
<td>2013</td>
<td>458</td>
<td>2</td>
<td>1,395</td>
<td>458</td>
<td>2</td>
<td>1,000</td>
</tr>
</tbody>
</table>

*Total Amount and Average deal size in $M
### IPO's during 2013

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Sector</th>
<th>Stock Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcobra Ltd</td>
<td>Life Sciences</td>
<td>NASDAQ</td>
</tr>
<tr>
<td>Enzymotec Ltd</td>
<td>Life Sciences</td>
<td>NASDAQ</td>
</tr>
<tr>
<td>Galtronics Corporation Ltd</td>
<td>Communications</td>
<td>TMX</td>
</tr>
<tr>
<td>Kadimastem Ltd</td>
<td>Life Sciences</td>
<td>TASE</td>
</tr>
<tr>
<td>Somoto Ltd</td>
<td>IT &amp; Enterprise Software</td>
<td>TASE</td>
</tr>
<tr>
<td>Wix.com Ltd</td>
<td>Internet</td>
<td>NASDAQ</td>
</tr>
</tbody>
</table>

*The report refers to both Asset purchase and Share Purchase M&A transactions of Israeli companies or companies that have a significant Israeli links.
** Kamada Ltd. IPO in the US is not included in this report since it was a public company in Israel and in order to avoid double counting.
*** The report refers only to exits with a value greater than $5 million and exits where the exit amount was disclosed.
****2005-2010 data based on IVC database.

Exit is defined as either closing of an acquisition of the shares, assets or operations of a target company, in consideration for cash or shares of the acquirer. Exit is also, an initial public offering (IPO) at any stock exchange, included in this report at the value determined in the pricing of the IPO.