



The PwC Israel 2015 Hi-Tech Exit Report

*Another amazing year for Israeli Hi-Tech exits
M&A is up 44%*





Rubi Suliman
Hi-Tech Leader
PwC Israel

Opening remarks

Israeli hi-tech continues to provide investors with an impressive string of exits, with total deal value of more than \$5bn for the fifth straight year. The Israeli market seems to have grown desensitized to the news of yet another exit. But, that's quite unjustified, because this is actually quite amazing, on a global scale.

More M&As, less IPOs

The growth of M&As this year was robust, with an increase from \$5bn in 2014 to \$7.2bn in 2015. Meanwhile, IPO activity by Israeli companies dimmed in 2015, from \$9.8bn for 18 IPOs in 2014 to \$3.5bn for 8 companies in 2015, mainly due to effect of the \$5.3bn Mobileye IPO in 2014.

The decline in IPOs is driven by several factors. First, the window of opportunity has been closing in the US and the UK. It is not completely closed just yet, but certainly narrowed in 2015. Second, cheap private money is a very significant contributor to the decrease in IPOs. Only recently we have witnessed companies that were unable to raise in IPOs at the same valuations as they did in private placements. When the public markets do not give the higher valuation, the number of IPOs is set to go down. Only recently we have seen the Square IPO, which went public at a lower valuation than reflected by its last private round. Square is not alone in this. Quite a few Israeli companies find it easier to raise private capital with higher valuations, which make it less attractive to go public, if at all. Finally, decision makers in the high-tech industry no longer seek

small-to-medium IPOs and want to grow companies to unicorn status before listing, which requires a higher level of company maturity, and takes longer to achieve.

The increase in M&A deals is virtually fully explained by an increase in the number of deals, from 52 to 62. This increase is driven by continued appetite by large multinationals to use their massive cash holdings to acquire innovative future technologies as the best way to preserve value in the current environment of super-low returns. Some of these funds are actually "locked" in tax structures that make the acquisition strategy seem even more attractive.

Who's buying?

Israeli hi-tech remains a focal point for international M&A deals. We have grown accustomed to the presence in Israel of global giants like Facebook, Apple, IBM, Qualcomm, Microsoft, Intel and more, which is actually far from being obvious. This year we have seen some new players in the local M&A market such as ARM, Amazon and Zynga. Israeli companies, such as Checkpoint, Mellanox, IronSource and Wix are also actively or potentially in on the action. The most active buyer by far is Microsoft with 5 acquisitions in 2015. In 2015, 56 buyers acquired 62 companies, versus 49 buyers that acquired 52 companies in 2014.

While ranked top in terms of the number of delegations to Israel and interest they show, the Chinese are still on the sidelines

and have not made significant acquisitions of Israeli hi-tech companies. However, the Chinese do make investments in Israeli hi-tech, and have made quite a few acquisitions in other industries, so it's possible to assume that it is a matter of time before they get into the game.

Looking ahead

The expected further hike of interest rates in the US and the belief that the economy is recovering out of "the seven lean years" since 2008, may impact the availability and alternative price of private money, and indirectly impact exits in Israel, given other investment opportunities. But, in fact, there are arguments that actually show why those changes can even intensify M&A activity in Israel. Be it as it may, such transitions take time to play out, and so, it is fair to assume that 2016 will also be buzzing with M&A activity. The amounts currently invested in Israeli hi-tech is unprecedented, and it seems that this will bear fruits in the form of more innovative companies that will keep Israeli hi-tech rolling forward. The bottom line is that at this juncture, Israeli hi-tech have all ingredients to continue producing larger than ever exits.

Wishing you a great year,

Rubi Suliman
Hi-Tech Leader
PwC Israel

Opening remarks

Exits by years

Exits by sector

• General

• Detailed

Exits by deal size

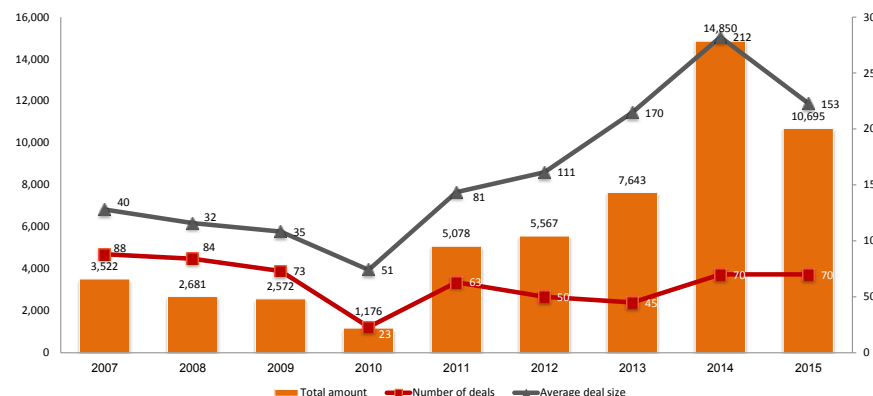
Annual IPO vs. M&A

Buyers by geography

Contact

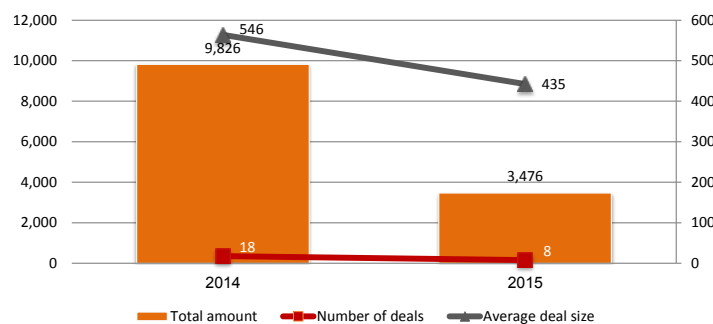
Exits by years

Total annual exits IPO & M&A 2007-2015 (\$ in millions):

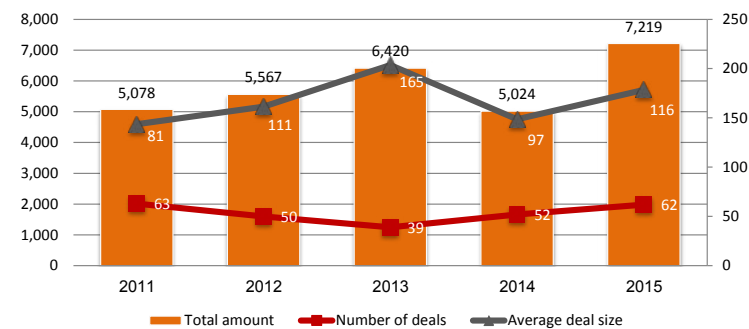


	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total amount \$ in millions	3,522	2,681	2,572	1,176	5,078	5,567	7,643	14,850	10,695
Number of deals	88	84	73	23	63	50	45	70	70
Average deal size	40	32	35	51	81	111	170	212	153

Total annual exits - IPO only 2014 - 2015 (\$ in millions):



Total annual exits - M&A only 2011 - 2015 (\$ in millions):



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Exits by sector

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•Detailed

Exits by deal size

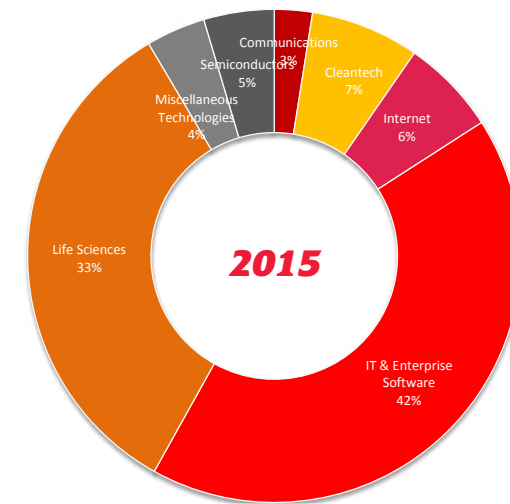
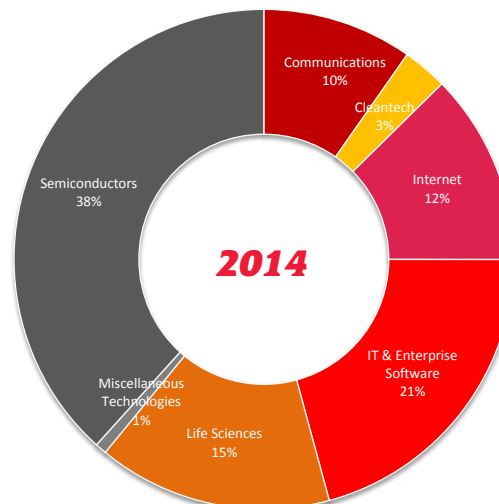
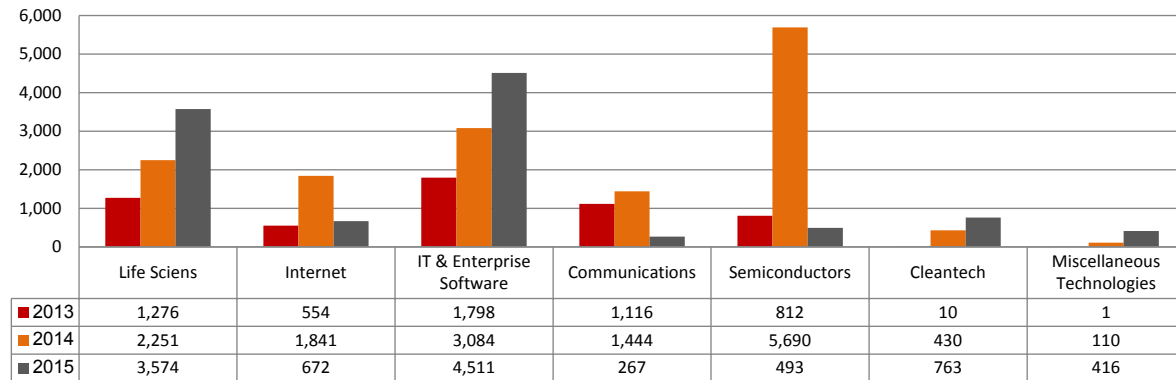
Annual IPO vs. M&A

Buyers by geography

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Exits by sector (General)

Total annual exits by sector (IPO & M&A) 2013 - 2015
(\$ in millions):



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•General

•Detailed

Exits by deal size

Annual IPO vs. M&A

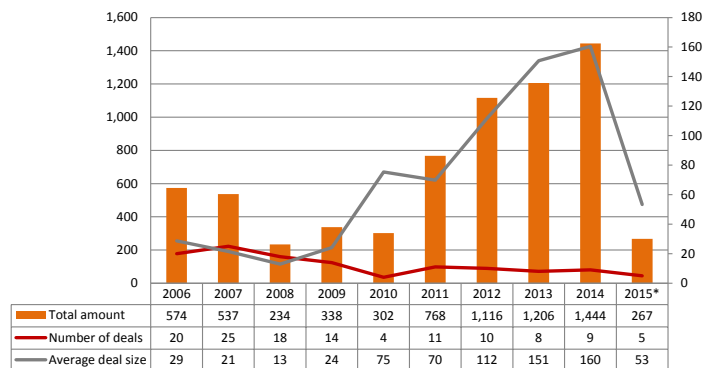
Buyers by geography

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Exits by sector (Detailed)

Total annual exits by sector (IPO & M&A) 2006 - 2015
(\$ in millions):

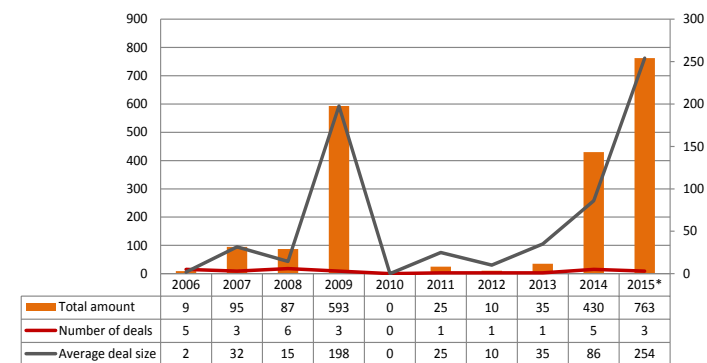
Communications



*No large deals were closed in the communications sector, compared to 2014 with the \$900mn Viber deal.

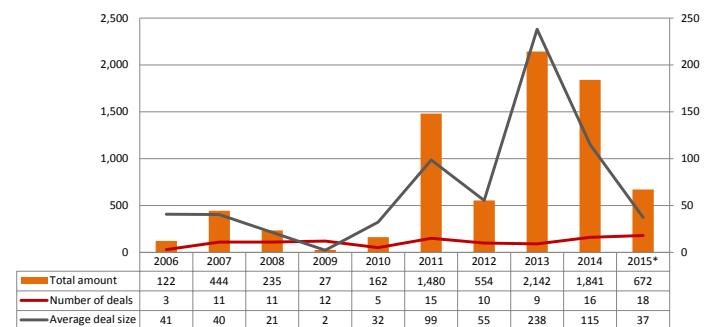


Cleantech



*Growth in the Cleantech sector in 2015 driven by the SolarEdge IPO.

Internet



*No large, exceptional deals were closed in the internet sector, compared to 5 IPOs with total value of \$1.4bn.

Opening remarks

Exists by years

Exists by sector

• General

• Detailed

Exists by deal size

Annual IPO vs. M&A

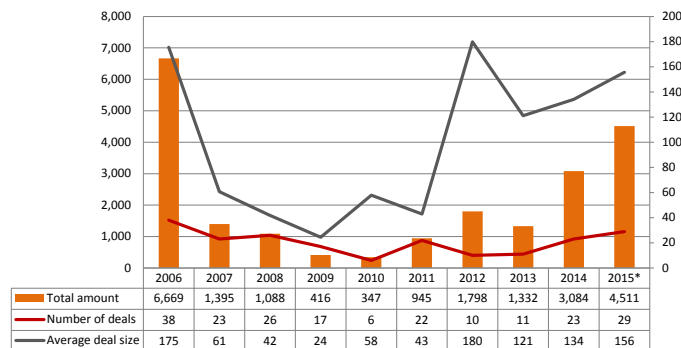
Buyers by geography

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Exits by sector (Detailed)

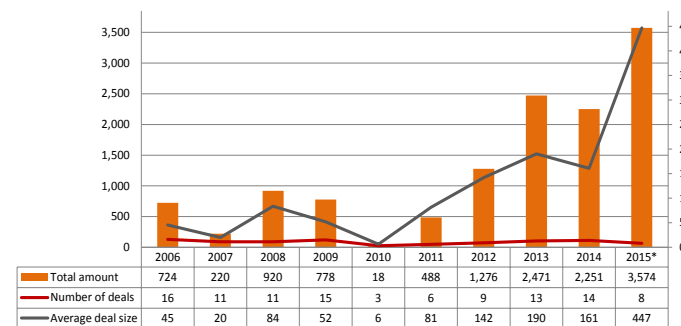
Total annual exits by sector (IPO & M&A) 2006- 2015 (\$ in millions):

IT & Enterprise Software



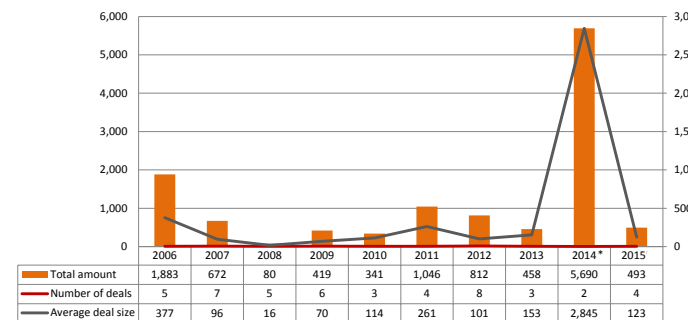
*Growth in the corporate IT and software in 2015 was mainly driven by a significant growth in the number of deals

Life Sciences



*Growth in the life sciences sector in 2015 was mainly driven by the \$1.8bn Novocure IPO.

Semiconductors



*In 2014, \$5.3bn are attributed to the Mobileye IPO.



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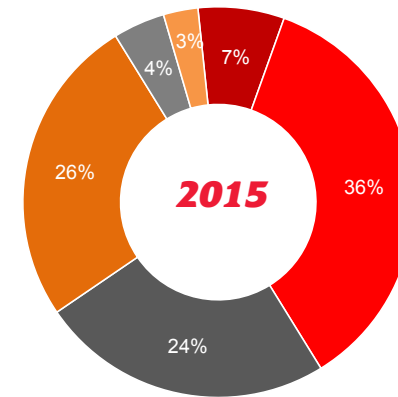
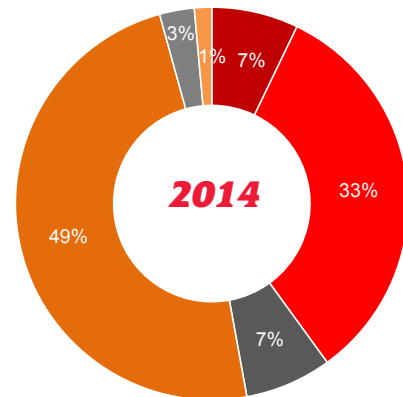
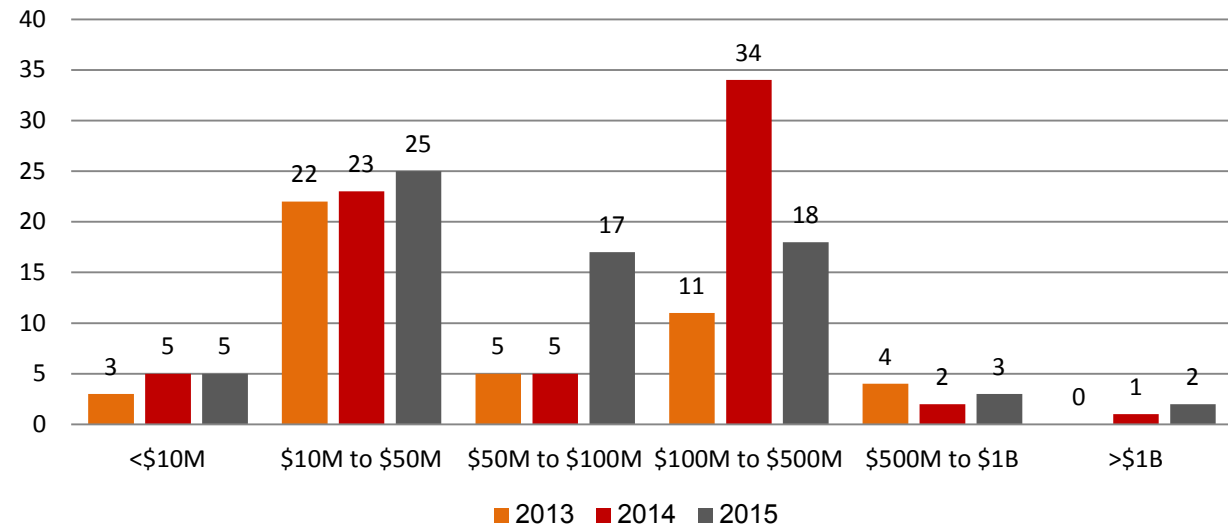
Exits by deal size

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Exits by deal size (\$ in millions):



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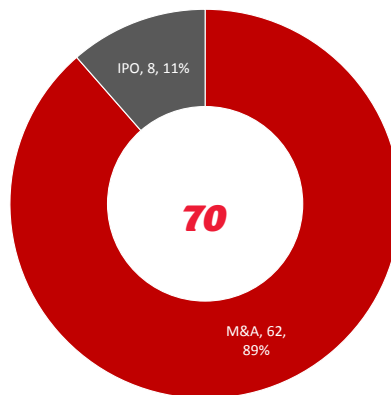
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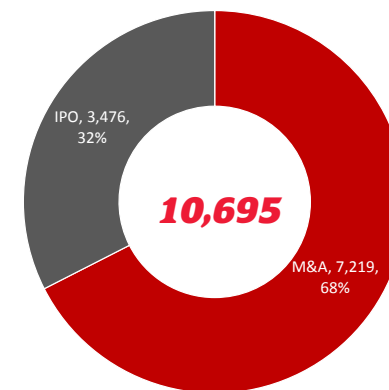
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Annual IPO vs. M&A

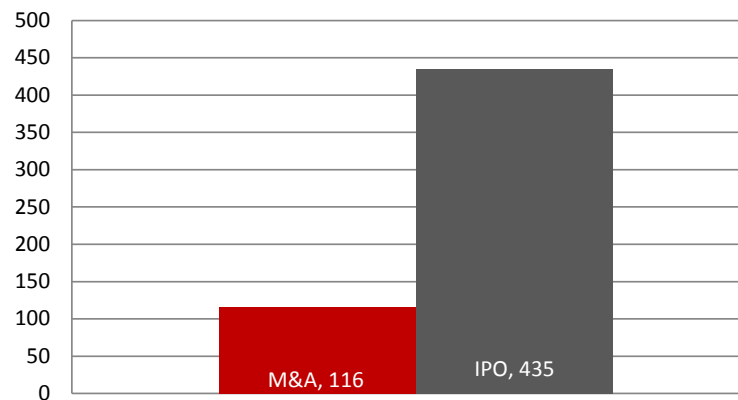
Number of deals



Total amount (\$ in millions)



Average deal size (\$ in millions) :



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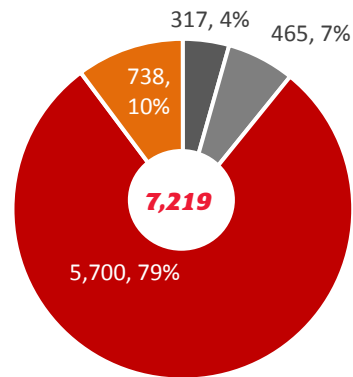
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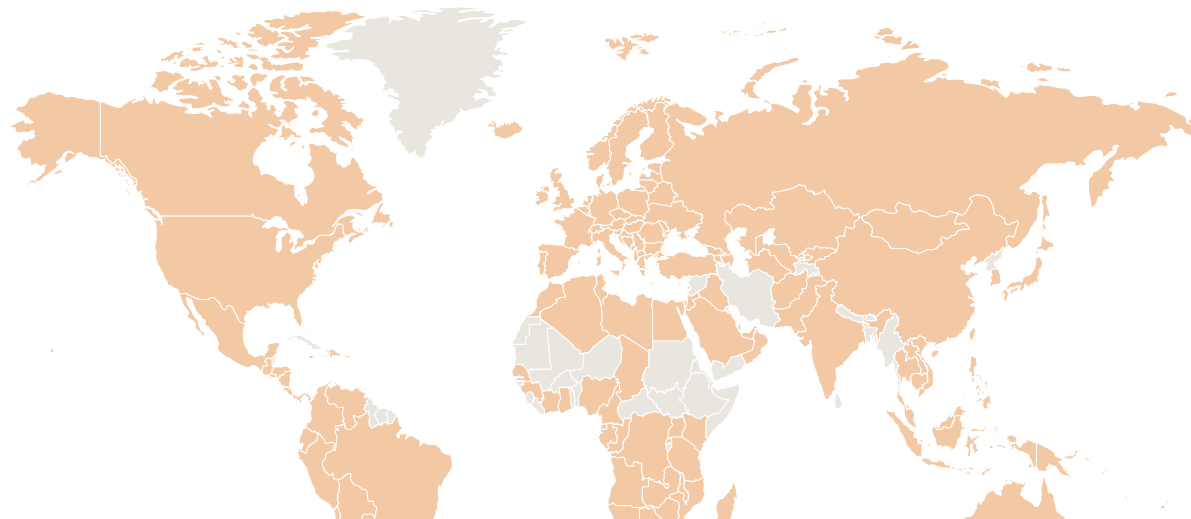
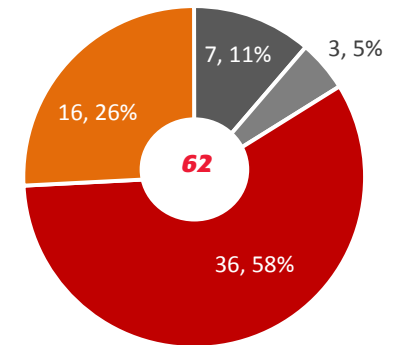
Buyers by geography

Total amount of M&A deals (\$ in millions)



■ Europe ■ Asia ■ USA ■ Israel

Number of M&A deals



For further information

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**The report refers to both asset purchase and share purchase M&A deals of Israeli companies or companies that have a significant Israeli affiliation.
** The report refers only to exits with a value greater than \$5 million and exits where the exit amount was made public.*

****2007-2015 data based on IVC database.*

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 an initial public offering (IPO) on any stock exchange.

IPO values are based on IPO pricing.

IPO values in this report are based on market caps of companies on the date of IPO pricing.

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