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The PwC Israel

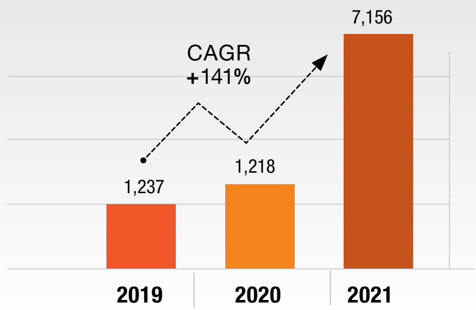
Buy-Side M&A Playbook

Guidelines for a successful buy-side deal

Introduction

Departing from their exit-centered tendencies, Israeli tech companies are discovering life on the buy-side. This playbook is designed to help you better navigate this process based on lessons learned from the numerous transactions we have supported.

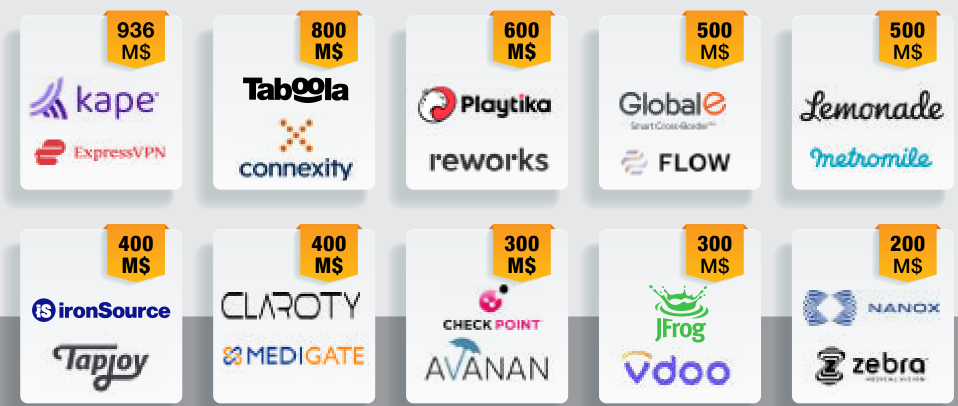
Value of acquisitions by Israeli companies **2019-2021, $Bn**



Source: IVC

After a long string of record-breaking years for Israeli tech M&As, 2021 was by far the most outstanding of all, with a total deal value of $17Bn. **What may come as a surprise to some, however, is the historic shift by many Israeli companies from the sell-side to the buy-side. Not fewer than 56 Israeli companies made acquisitions, at a total worth of $7Bn.** This does not leave much room for doubt – it's game on for Israeli hi-tech buyers.

The 10 largest acquisitions by Israeli companies, 2020-2022



[1] Nasdaq 29% drop from January to May 2022. Source: Forbes

This trend is expected to continue in coming years as well. A whopping $2.3Tn in private equity "dry powder" is available on the market for making further investments. This, combined with the growing size and stronger market position of local tech names, is expected to **continue fueling the trend of more acquisitions by Israeli companies.**

While recent developments in the markets are slowing down the pace of deals in the short term, this may be a blessing in disguise for buyers, creating new opportunities in the longer run. The current declining valuations of publicly-traded companies are trickling down and affecting price tags of private companies as well, and – combined with fewer options by targets for raising capital – buyers are expected to have more and much better valued opportunities.

This playbook is designed to support hi-tech executives through this historic shift and provide guidance to help them through the first few steps as buyers. We at PwC/Strategy& Israel see countless robust tech companies that start struggling once faced with a first acquisition as buyers. Hopefully, the insight and practical steps provided here will help you stay on a strong footing through that journey and support you towards a successful deal.

Our mission is to ensure your success

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The five stages of a deal

In broad strokes, every deal has five key stages (as shown in the chart below). **While the order and depth of each may vary case-by-case, any executive should consider all when planning an acquisition process.**

Acquisition decision and target selection	Contact and negotiation	Due Diligence	Pre-Close	Post-acquisition
■ Acquisition decision ■ Strategic goals definition ■ Target search ■ Target selection	■ Initial contact ■ Initial valuation and negotiation	■ Financial DD ■ Legal DD ■ Tax DD ■ Commercial DD ■ Other DD's	■ Contract drafting and negotiations ■ Finalization of commercial terms (incl. financing) ■ PMI strategy design and planning	■ Implementation of PMI strategy ■ Monitoring of deal KPIs

Milestones: Letter of intent (LOI) submitted · SPA/APA signed · Deal Close

What functions do you need on your team?

The deal ecosystem has many moving parts. An acquisition is a multidisciplinary process, involving different types of professionals that contribute their unique perspectives, and that need to be orchestrated to make the whole endeavor end in a success. To simplify, the participating functions can be divided into three layers (as seen in the chart below):

Core

"Must-have" functions that are crucial across the entire acquisition process

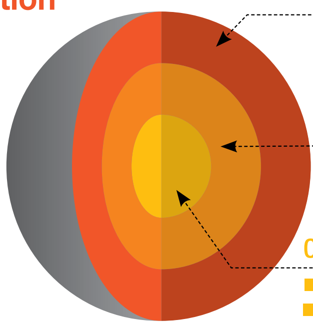
Essentials

Fundamental functions that are critical in specific stages. Their level of participation may vary based on specific needs present in every deal

Specific expertise

Deal-specific functions that are dependent on the particular dynamics and required expertise in the individual deal

Acquisition Function Ecosystem >>



Specific Expertise
■ Technology ■ Financing
■ Operations ■ Cyber ■ Privacy ■ IT

Essentials
■ Business strategy ■ Tax
■ HR ■ Post-merger-integration

Core
■ ExCo sponsor ■ Legal
■ Financial ■ Deal champion

How do I build the right team for the deal?

1

Identify the key required functions early on

Identify the most important elements for supporting different stages of the deal based on its specific dynamics. The functions identified represent topics you should deep-dive into

2

Decide what you do in-house and when to use external experts

To decide what is best for you, take a closer look at your internal capabilities. Remember that even if your team already has a couple of deals under its belt, given the variability among transactions, going for experienced external experts can bring you a lot of value. With that in mind, and factoring in your capacity and available resources,choose carefully which functions you wish to do in-house, and which you rather outsource

3

Choose your advisors wisely, considering:

A. **Deal experience** – This should be top on your list. Especially when it comes to key issues, you will want to make sure that you are surrounded by people who have done this type of a deal before

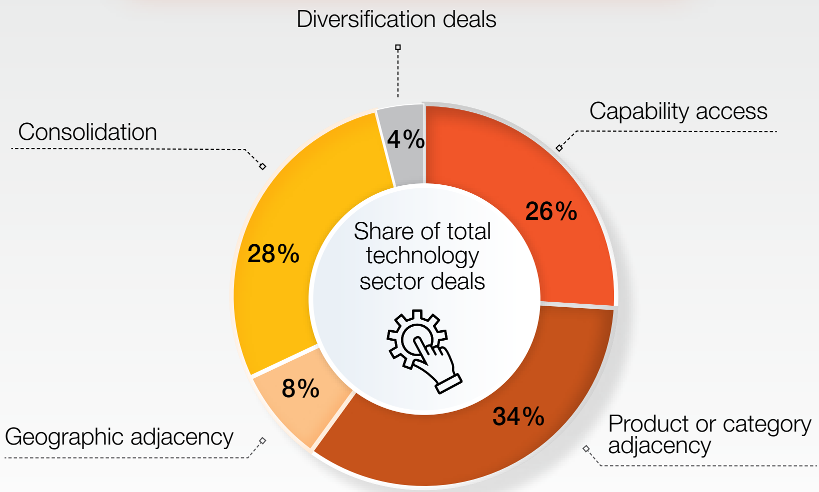
B. **Industry expertise** – Make sure that your key advisors have good high-level understanding of your industry's unique characteristics

C. **Capacity and bandwidth** – When engaged with advisors, clearly communicate your expectations in terms of scope and deadline. You will want to ensure that the teams you are working with have the skill and bandwidth to support all your needs within the relevant timeframe

Strategies that make deals successful

Over the past year, PwC/Strategy& examined 800 deals through the lens of internal capabilities that buyers have. When contemplating a deal, many acquirers often look for fit in terms of the business objectives of the deal (intent), such as entering a new market, diversifying their product line or rolling-up a competitor. **Our finding: deals do better when the incoming company fits the acquiring company's capabilities system.** The business intent is all important, but the real differentiator is capabilities fit.

Tech M&A deals by declared intent, 2021



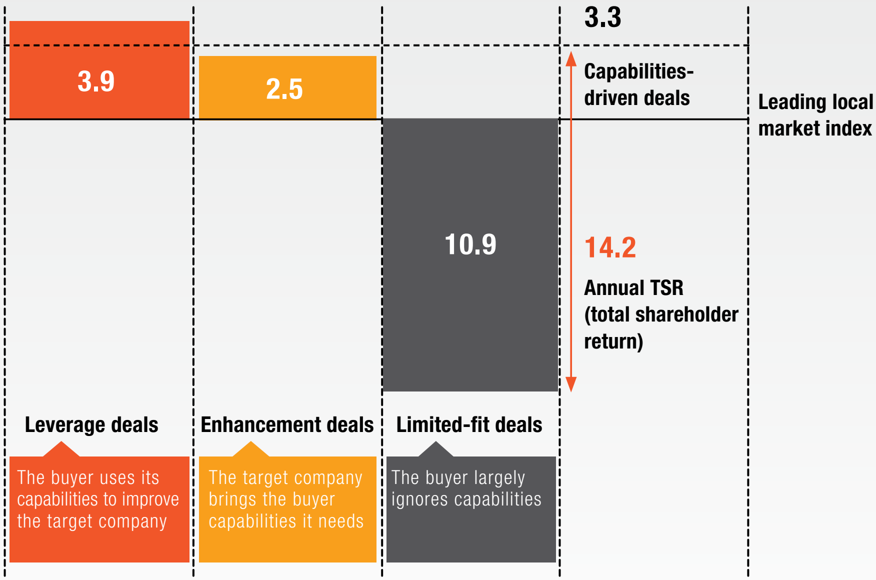
Source: PwC/ Strategy&

Deals that deliver value don't happen by accident – **successful acquirers make M&A deals that either enhance their distinctive capabilities systems, leverage them, or do both**.

In this context, a capabilities system is something specific: three to six mutually reinforcing, distinctive capabilities that are organized to support and drive the company's strategy, integrating people, processes, and technologies to produce something of value for customers. Good examples of distinctive capabilities are Apple's intuitively accessible design and Amazon's back-end supply-chain management. Acquiring companies that provide a good fit to those distinctive capabilities can dramatically increase the odds of success.

As our study proves, the capabilities orientation is particularly valuable in M&A transactions, when time is often short and the stakes high. Executives who understand their companies' capabilities system end up with a reliable and rapid guide to sound judgment. When a seemingly attractive prospect comes along that doesn't fit, they recognize it. When a deal fits, they have a more solid basis for evaluating the right price. And during the execution of the merger, they are in a better position to gain value. These lead to what can be referred to as the "capabilities premium" in M&A – the higher returns to shareholders from deals that either leverage or enhance the acquiring company's capabilities.

Average Annual Total Shareholder Returns (TSR) above or below local market index performance, in percentage points



Source: PwC/ Strategy&

Our results clearly demonstrate the extent of the "capabilities premium" in M&A.
The average annual total shareholder returns from deals that leverage or enhance the acquiring company's capabilities system is 14.2 percentage points higher on average compared to low fit deals.

PWC/Strategy&'s tips for a successful acquisition

A coherent, capabilities-driven deal strategy is important, but the success of great deals goes beyond it. In our many years supporting deals of all types, we have identified several success factors throughout the entire deal process. **Start here**:

1

Have a clear strategy

Make sure you know what you are looking for and why. It is critical to have a clear goal and follow up with a suitable strategy to ensure success

2

Make sure you have the right team

Deals are messy and always take longer than expected. Invest in your team to ensure that it has enough resources to succeed, both in terms of expertise and capacity

3

Maintain your focus on "business as usual"

Everybody wants to hold the new baby, but it is important to keep the focus on the ongoing business at the same time. Leave involvement in the deal to specific employees based on their relevance

4

Identify red flags early

It is easy to fall in love with deal, especially when it is your first time. Maintain objectivity and make sure you identify red flags early on, as they will direct your thinking to the most critical challenges

5

Have measurable key performance indicators for the deal success

Outline well-defined and measurable objectives that would serve as key performance indicators for how the deal is doing (e.g.,achieve full integration by 2023). This will help you stay on track and make sure all relevant teams are aligned with your goals

6

Involve the board and other key relevant stakeholders early

To gain broad support for the deal, early involvement of all key stakeholders is critical. Keeping the board posted is especially important, and having them appoint a representative to manage communicationis a good idea

7

Have realistic goals

Earn-out and retention mechanisms often rely on overly complicated and exaggerated business plans, and both sides end up losing. To avoid that, check that your business model is realistic

8

Plan your PMI strategy early, especially if the deal is synergy-based

Integration strategy should be aligned with the deal strategy. If the deal is synergy-based, start thinking on the PMI strategy early on and have a clear understanding of how to execute on it

9

Retain the key people

Identify the key people from your target early on, and don't solely rely on the target management's opinion. Communicate with them and draft a strong incentive plan to ensure retention

10

Invest in a healthy relationship with the target

Deals are often an emotional process and maintaining a healthy relationship with the target rather than a technical one is crucial

10 key questions when starting an acquisition

The first step when starting an acquisition is to focus! There is a lot do. After covering the acquisition process, the team to support the acquisition, the deal strategy, and our key tips for success – all you need to keep for the future is these 10 questions. These will help you determine how ready you are for an upcoming deal, both strategically and process-wise:

1. **Do I have a clear strategy and know what I am looking for in this deal and why?**
2. **Is my company ready to make the leap and capable of carrying this acquisition?**
3. **Is this deal a good fit to my company's core capabilities?**
4. **What are the key issues and opportunities at stake in this deal?**
5. **Do I have the right team to support the acquisition process?**
6. **Do I have the capital to support this deal, or a financing plan to lean on?**
7. **How will I manage communication with the board and other key stakeholders?**
8. **How will I ensure that there are no interruptions to the core business?**
9. **What is my post-merger-integration (PMI) strategy? how will I manage the process?**
10. **Do I have clear, measurable performance indicators for the deal's success?**

Our team

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