The PwC Israel 2012 Hi-Tech Exit Report

$5.5B Israeli hi-tech exits in 2012

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Surprisingly enough, there is still no Hebrew equivalent for the term exit, especially given it's been increasingly used here. Data show that 2012 was a record year for exists of Israeli companies, with $5.5 billion in 50 transactions and an average deal size of $111 million. This, we might add, excludes NDS that was sold to Cisco for $5 billion, because it is not considered an Israeli exit. We also don't count in the Object/Startasys deal, which we don't see as really an exit.

On exits and growing multinational corporations

A heated debate is now raging on the issue of Israeli startup exits vs. building large Israeli corporations. To contribute to this debate, I would like to present a somewhat different perspective. Exits are a blessing for Israel, both in terms of immediate tax collection, but even more so in creating jobs, bringing in more investors, and enriching management and technology experience in Israel, to name just a few benefits.

And, the truth of the matter is that most exiting startups would not have become global tech giants anyway, and some were even formed in the first place with a clear vision of an exit. This narrows down the discussion to those few companies that could potentially evolve into leading multinationals that employ hundreds and thousands of people. For any of those selected companies, market forces should tip the balance between exit and no exit. The bid price, entrepreneurs and investor preferences, the buyer, the business, market conditions, the power of proprietary technology and tax rates are some of the major factors that would direct a company that way or the other. The government can (and should, if that is in its best economic interests) to put on the table the right incentives for investors to go public rather than exit, like providing benefits for such companies. But entrepreneurs and investors have some other powerful considerations in mind.

But beyond that, our take is that, ***paradoxically, current exits help create future Israeli multinationals.*** Growing such a multinational is a complex task that requires the right product and technology, an experienced management team and supportive investors. Building a large corporation can bring much more value than a quick exit, but carries much bigger risks.Even though ***any large, successful company can go for an exit, not every exiting company can become a large, successful company.***

One product of exits is investors and entrepreneurs that are more patient, with bigger money and richer multinational experience. The presence of those very essential building blocks of major multinationals makes it easier to take the harder decision not to have a quick exit, but grow. We are already seeing some mature Israeli companies that are now weighing between an IPO and an exit, or some that have advanced even farther and are now looking for the right timing to go public.

The Israeli tech multinationals are growing before our eyes. There is no doubt that most companies will likely choose an exit, but few will grow to become the multinationals that we have wished to see for so long.

Exits only

In 2012, the exit market was mainly driven by a high average price per deal. The trend for some years now is clear: less transactions but for higher prices. This trend indicates that the Israeli hi-tech market has now come of age, and that individual local companies get to the exit line when they are much more mature. The last two years volumes tell about the robustness of Israeli hi-tech, which even in a time like this of global of economic uncertainty still attracts buyers and prospects from across the world.

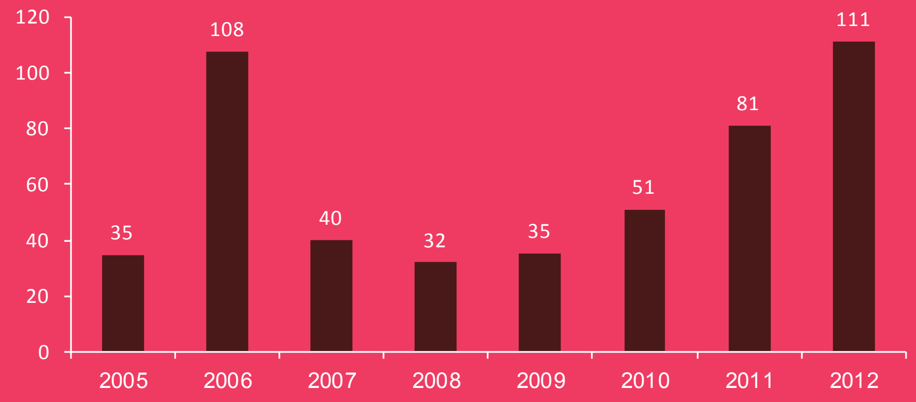
Sliced by segment, the figures really speak for themselves. But note that one or two large deals can skew perceptions about relative strength of sectors. Notably, the internet sector has gone significantly down from its 2011 exit level, but that doesn't mean it is becoming weaker, and it is very likely to continue to be a powerhouse for Israeli hi-tech growth for years to come. The semiconductors sector is also somewhat slower, but is far from going away, which is another testament for the strength of the industry. IT and enterprise software was ahead of all other sectors thanks to the three large transactions this year.

What the future holds

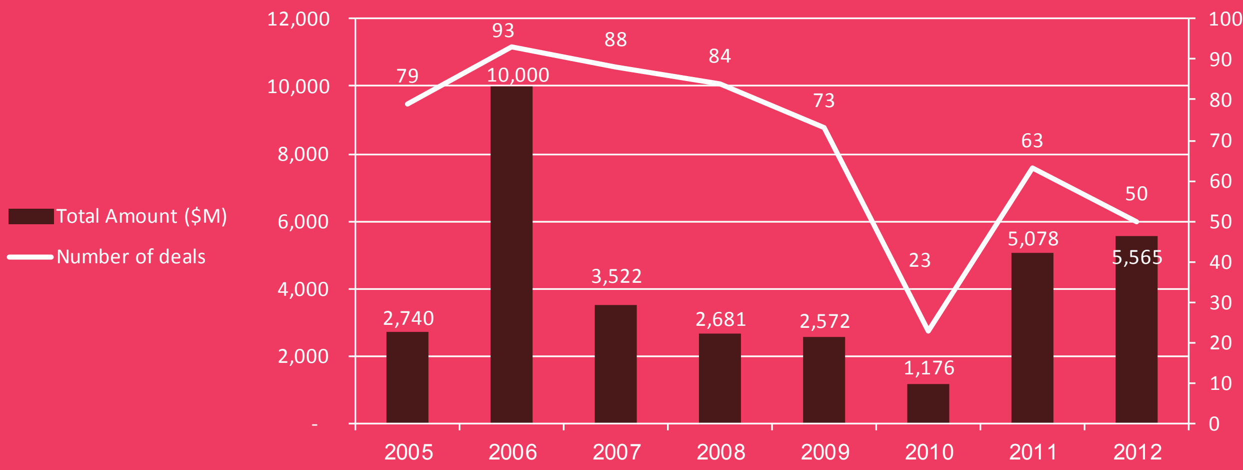
2013 started with much optimism. Two straight years with high exit levels brought here many investors and buyers. Most global hi-tech giants have development centers in Israel, and those also serve as bridgeheads to scout for the next hot Israeli company to buy. Many international private equities slowly join in, as the Israeli hi-tech landscape remained as diversified and innovative as ever. Many of the Israeli companies are quite advanced on the maturity continuum, which can eventually be reflected by exits worth over $1B. The new year is already poised to surpass the ones that came before it. Not only this, a potentially vibrant US market for tech IPOs in 2013 makes it possible that we will see a handful of interesting IPOs of Israeli companies and a continued building up of those long awaited Israeli multinationals.

Happy and successful exit year
Rubi Suliman, Partner
Hi-Tech leader, PwC Israel

Average Deal Size ($M)

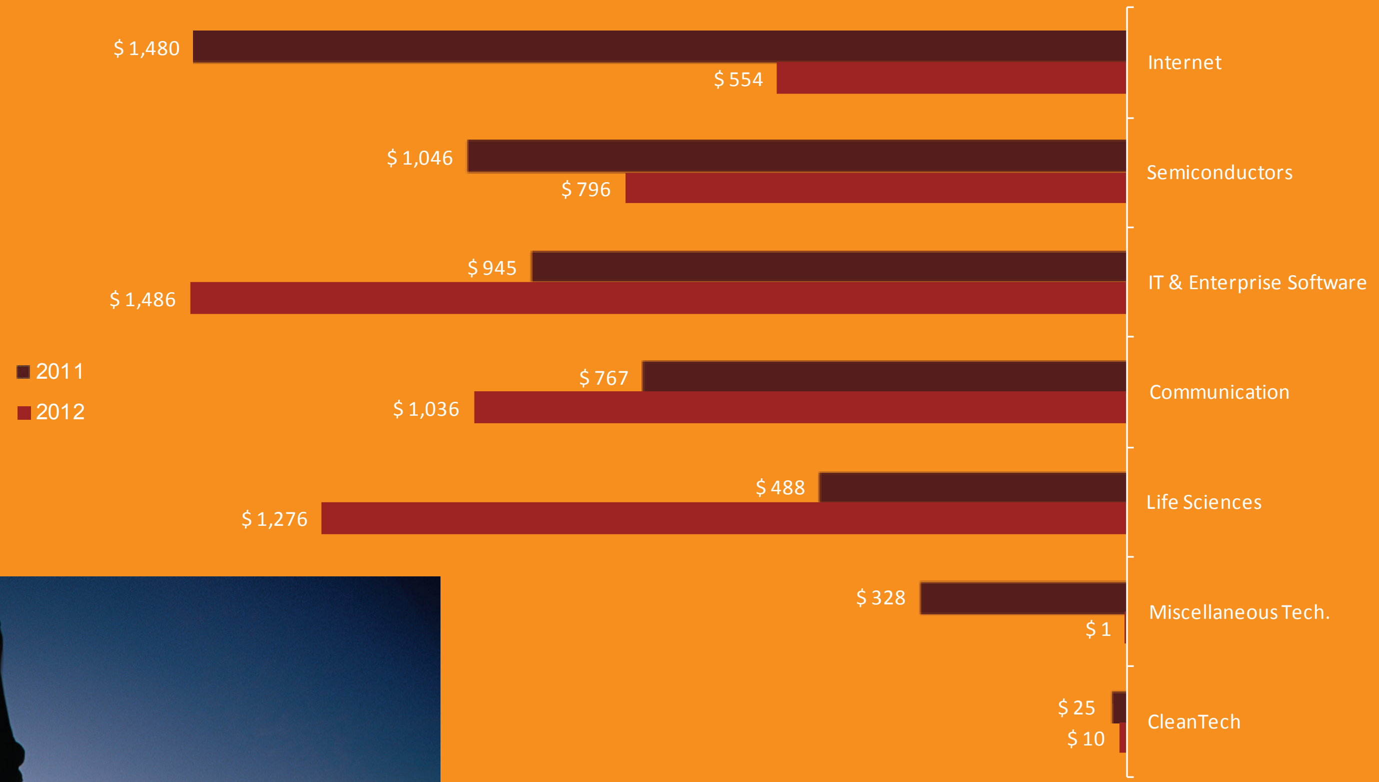


Total Amount & No. of Deals

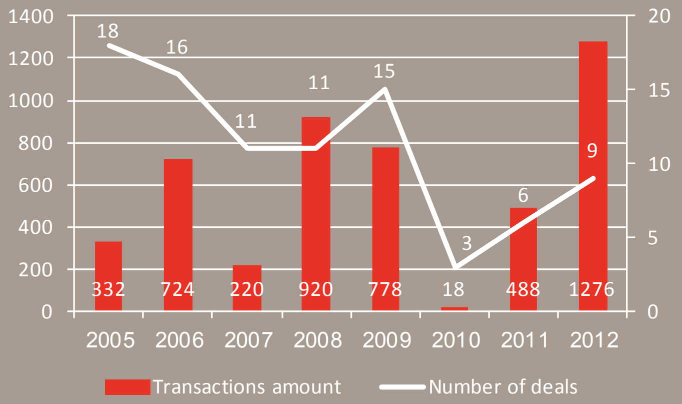


	2005	2006	2007	2008	2009	2010	2011	2012
Total Amount ($M)	2740	10000	3522	2681	2572	1176	5078	5565
Number of deals	79	93	88	84	73	23	63	50
Average deal size ($M)	35	108	40	32	35	51	81	111

2011 Vs. 2012 by Sector

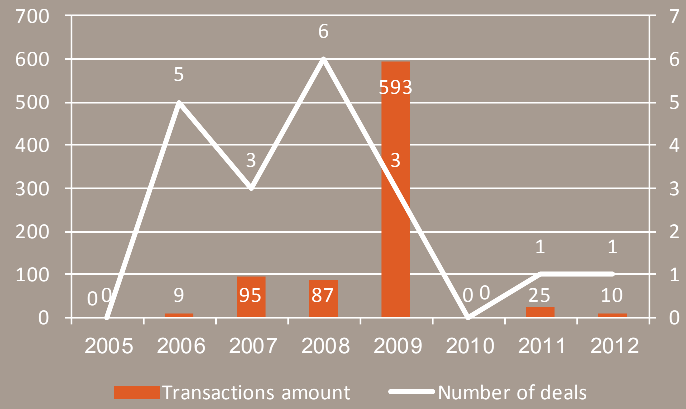


Life Sciences



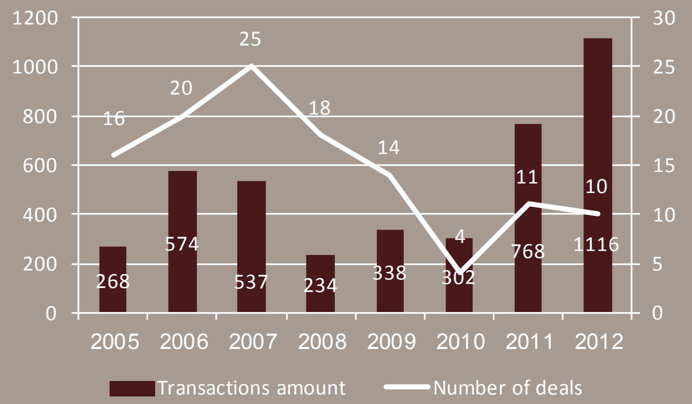
	2005	2006	2007	2008	2009	2010	2011	2012
Total Amount	332	724	220	920	778	18	488	1276
Number of deals	18	16	11	11	15	3	6	9
Average deal size	18	45	20	84	52	6	81	128

CleanTech



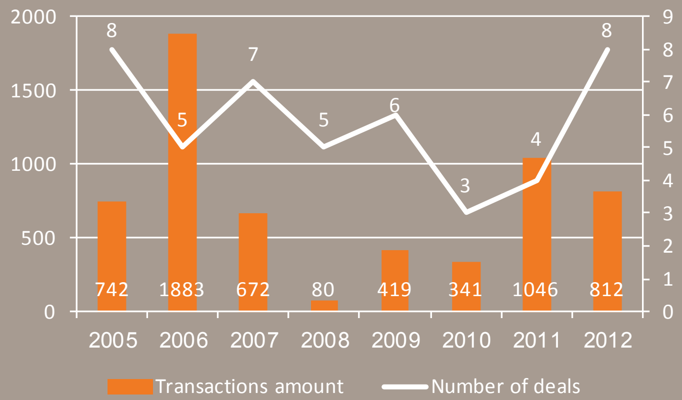
	2005	2006	2007	2008	2009	2010	2011	2012
Total Amount	0	9	95	87	593	0	25	10
Number of deals	0	5	3	6	3	0	1	1
Average deal size	0	2	32	15	198	0	25	10

Communication



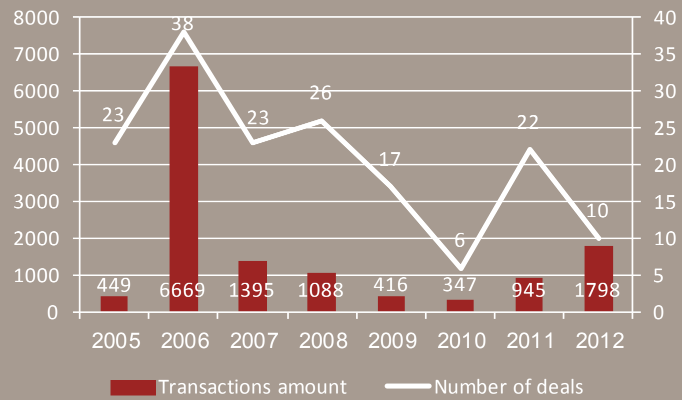
	2005	2006	2007	2008	2009	2010	2011	2012
Total Amount	268	574	537	234	338	302	768	1116
Number of deals	16	20	25	18	14	4	11	10
Average deal size	17	29	21	13	24	75	70	101

Semiconductors



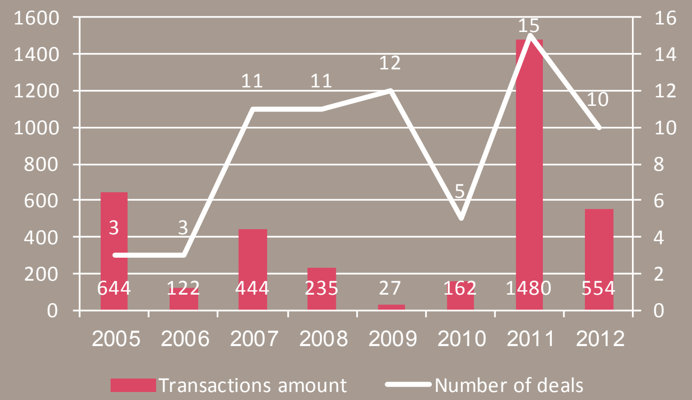
	2005	2006	2007	2008	2009	2010	2011	2012
Total Amount	742	1883	672	80	419	341	1046	812
Number of deals	8	5	7	5	6	3	4	8
Average deal size	93	377	96	16	70	114	261	102

IT & Enterprise Software



	2005	2006	2007	2008	2009	2010	2011	2012
Total Amount	449	6669	1395	1088	416	347	945	1798
Number of deals	23	38	23	26	17	6	22	10
Average deal size	150	43	58	24	42	61	175	20

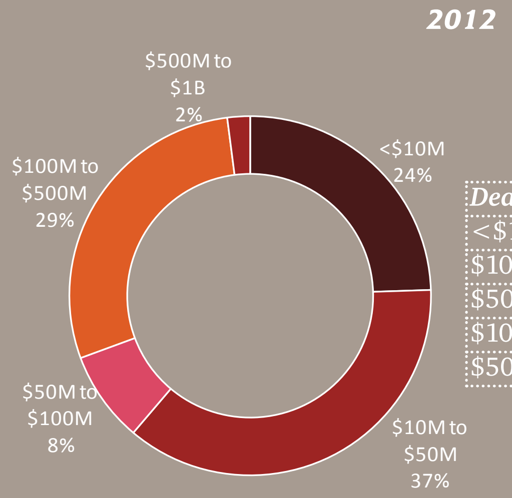
Internet



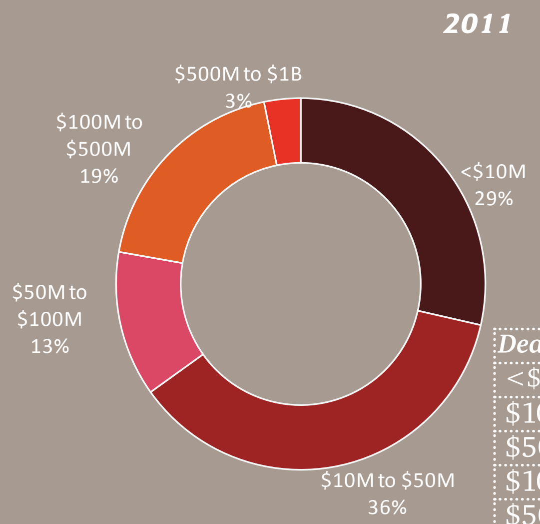
	2005	2006	2007	2008	2009	2010	2011	2012
Total Amount	644	122	444	235	27	162	1480	554
Number of deals	3	3	11	11	12	5	15	10
Average deal size	215	41	40	21	2	32	99	55

**Total Amount and Average deal size in $M*

2011 & 2011 by Deal Size

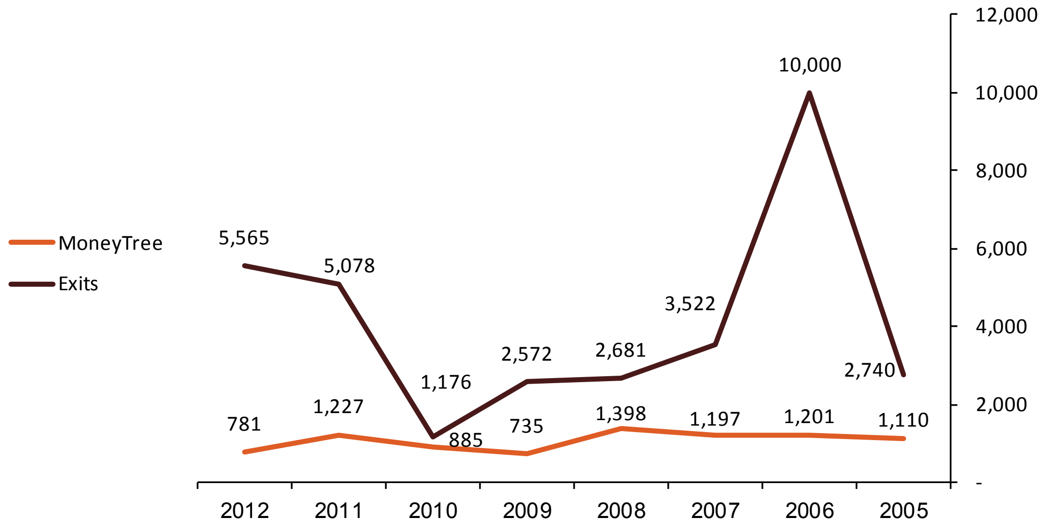


Deal Size	*No. of Deals*
<$10M	12
$10M to $50M	18
$50M to $100M	4
$100M to $500M	14
$500M to $1B	1



Deal Size	*No. of Deals*
<$10M	18
$10M to $50M	23
$50M to $100M	8
$100M to $500M	12
$500M to $1B	2

VC- backed funding vs. Exits total amount



	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
VC Funding in $M (MoneyTree)	*1,110*	*1,201*	*1,197*	*1,398*	*735*	*885*	*1,227*	*781*
Exits in $M	*2,740*	*10,000*	*3,522*	*2,681*	*2,572*	*1,176*	*5,078*	*5,565*

For further information

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*The report refers to both Asset purchase and Share Purchase M&A transactions of Israeli companies or companies that have a significant Israeli links.
**Data for 2005-2010 based on IVC database.

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