

The Israeli Private Equity Market – Q2/2015

IVC and Shibolet report:

Israeli private equity thrives with \$1.67 billion in capital

Key facts:

- Israeli PE activity peaked with 29 deals in Q2/2015
- In Q2/2015, foreign PE funds continued to lead PE investments, with 78% share
- High-tech industry attracted \$1.4 billion, or 81% share, of total investments in Q2/2015

Tel Aviv, Israel, September 10, 2015. In Q2/2015, Israeli private equity performance reached a quarterly record, with 29 deals amounting to \$1.67 billion in capital. The quarter ended with the largest number of Israeli PE deals in comparison to the 5-year quarterly average of 17 deals. The quarterly amount invested in PE deals was the highest in three years, far above the \$145 million and the \$385 million invested in Q2/2014 and Q1/2015, respectively. (Figure 1)

In H1/2015, 44 PE deals totaled \$2.1 billion - the strongest first half-year since 2011, quadrupling H1/2014's \$592 million invested in 44 deals. The average private equity deal reached \$46.8 million in H1/2015, compared to \$13.5 in H1/2014.

In H1/2015, Israeli private equity fund investments accounted for \$447 million, or 22 percent, of total investments. This compares with \$355 million (60 percent) invested in H1/2014 and \$208 million (23 percent) in H1/2013. The largest deal by an Israel PE fund was the \$97 million buyout of paper manufacturer Hadera Paper by FIMI in Q2/2015.

The bulk of PE investments were made by foreign PE funds, which have dramatically increased their activity in Israel in Q2/2015 with \$1.3 billion, capturing 78 percent of all investments. The amount was only marginally lower than the \$1.4 billion (83 percent of total) invested in Q3/2014 – the strongest quarter for foreign PE fund activity to date. Moreover, in H1/2015 foreign PE fund investments accounted for 77 percent of all investments, compared to H1/2014, when they captured just 37 percent. (Figure 2)

Foreign PE funds were responsible for the top four deals in 2015, exceeding \$100 million each, together amounting to nearly \$1.3 billion, or 62 percent, of total PE transactions in H1/2015. The buyout of Lumenis, a medical device company by XIO Group, a Chinese PE fund, amounted to \$510 million, 30 percent of total PE deals in Q2/2015. The buyout of ClickSoftware, an enterprise software company by Francisco Partners, a global private equity firm, followed closely, with \$438 million. Two additional straight equity deals were under \$200 million each: \$175 million investment in Ormat by Northleaf, and \$150 million invested in Infinidat by TPG Growth.

In Q2/2015, 11 buyout transactions led all Israeli private equity deal-making with \$1.3 billion, or 80 percent, of total investments. In comparison, straight equity deals dominated both in Q1/2015 and Q2/2014, with 89 percent and 59 percent of total dollar investments, respectively.

Omer Ben Zvi, Partner at Shibolet & Co. observes a number of concurrent trends: "The last quarter manifests a continuous growth of the Israeli private equity industry, despite relatively low number of transactions in the previous two quarters. The year's second quarter demonstrates the stability of the local market with two big buyouts alongside a larger number of medium sized deals."

"In addition to the reinforcement of the Israeli PEs activity, we are also seeing a continuing trend of high-tech buyouts by foreign PE funds, further attesting the maturity of the local tech industry and its global integration. Foreign PE funds already active in Israel have been accelerating their deal making for some time now, and new PEs, including Chinese investors, are more and more active," noted Ben Zvi.

Marianna Shapira, Research Manager at IVC Research Center, says "Israeli high-tech companies appealed to many private equity investors, leading with \$1.4 billion in capital. We've observed this rapidly growing interest in local high-tech, as the sector's share in PE investments grew constantly from quarter to quarter, starting in the end of 2013, and peaking at 81 percent of total investments in Q2/2015. In comparison, the Israeli high-tech captured 78 percent and 54 percent in Q1/2015 and Q2/2014, respectively. While in both previous quarters technology deals led in share, with an upward trend, technology investments leaped from \$80 million in Q2/2014 when this trend first started, to current levels at multiples of nearly 18 times that amount. Judging from the current development trend in Israeli high-tech and our conversations with investors, PE funds suppose that Israeli technology sector offers various engagement opportunities."

Omer Ben Zvi believes this trend has not capped just yet: "From our perspective of the market, we expect these trends to continue or even increase in the near future, with a growing number of deals by foreign PE investors from the US, China and other countries. We believe such buyouts and PE investment in Israeli technology companies will play an important role in supporting and building the sustainable, stable companies we all wish to see growing in Israel," he concludes.

Software led all private equity transactions both in H1/2015 and H1/2014, with 33 percent and 23 percent of total dollar investments; life sciences stood out in H1/2015 with 28 percent, compared to just 9 percent in the same period of 2014. In terms of the number of PE deals, the services industry had an unusual number of deals: 11, mostly due to the new Israeli private equity fund active in the television field.

Israeli private equity investors

The IVC-Online Database maintains data on 27 active Israeli private equity management companies with a total of \$7.6 billion under management.

In the first six months of 2015, three Israeli private equity funds raised approximately \$0.8 billion, and eight other funds are engaged in fund raising, expected to close some \$0.5 billion by the end of the year.

Figure 1: Private Equity Deals by Quarter (\$m)

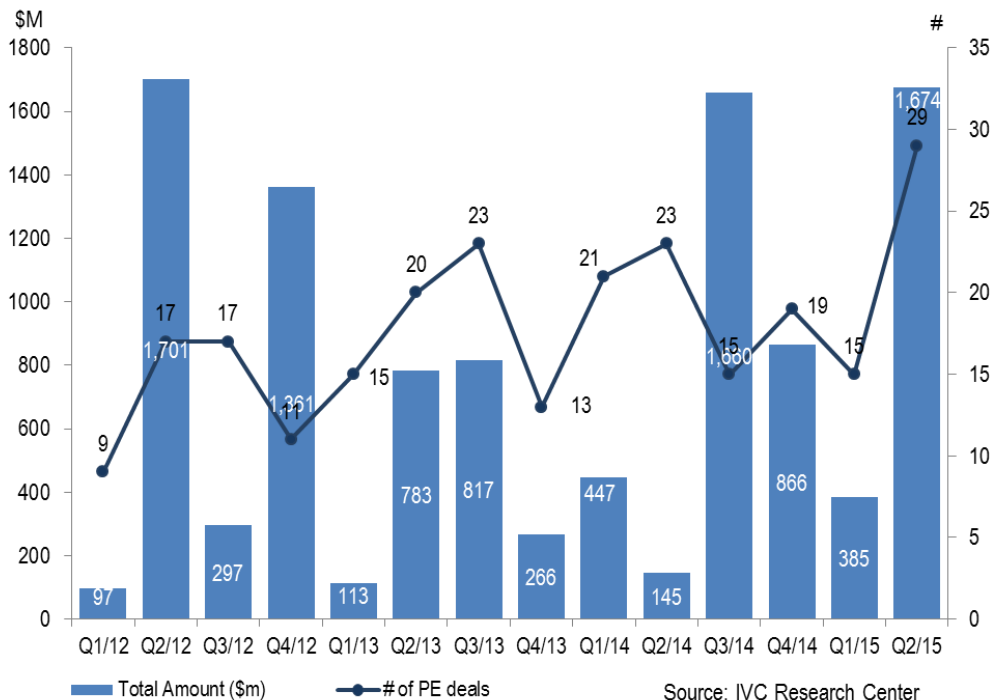
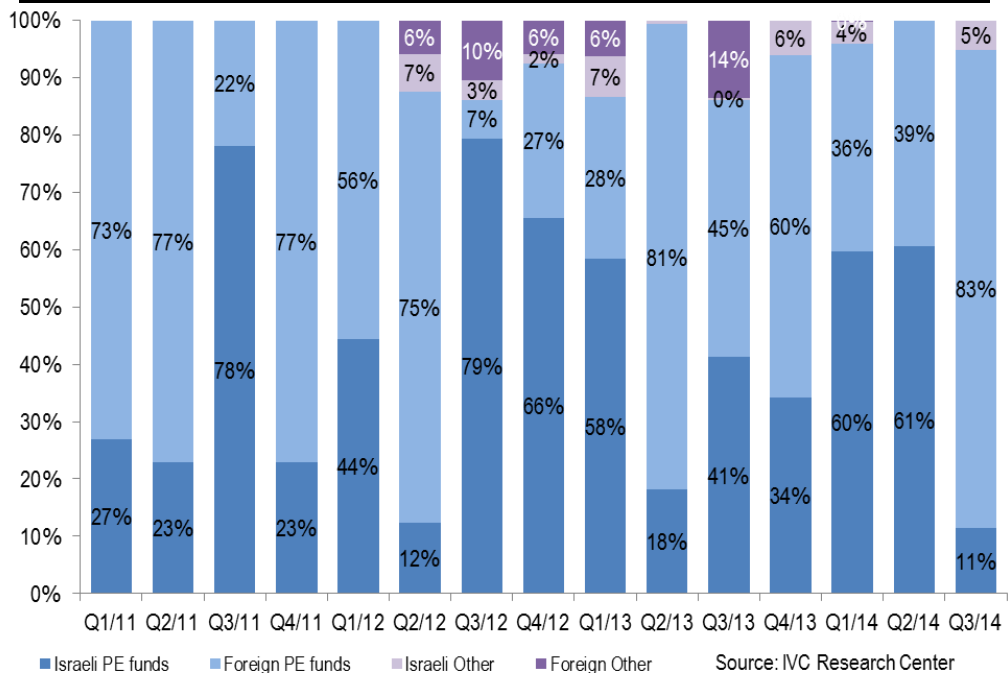


Figure 2: Private Equity Investments by Investor Type by Quarter (%)



Methodology

The Summary of Israeli Private Equity Deals Q2/2015 reflects information developed from IVC's Quarterly PE Survey, sponsored by Sponser, and reviews Israeli private equity deals involving Israeli and foreign private equity funds and other investors, both Israeli and foreign. The current survey is based on the activity of 65 private equity funds of which 23 are Israeli and 42 are foreign. This survey reviews the following types of private equity financing deals: straight equity, buyouts, mezzanine, distressed debt and turnaround/distressed equity. The data are based on information received directly from the funds and from the IVC-Online Database (www.ivc-online.com).

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IVC Research Center is the leading online provider of data and analyses on Israel's high-tech, venture capital and private equity industries. Its information is used by all key decision-makers, strategic and financial investors, government agencies and academic and research institutions in Israel.

- IVC-Online Database (www.ivc-online.com) showcases over 12,000 Israeli technology startups, and includes information on private companies, investors, venture capital and private equity funds, angel groups, incubators, accelerators, investment firms, professional service providers, investments, financings, exits, acquisitions, founders, key executives and R&D centers.
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