

## The Israeli Private Equity Market – Q3/2015

IVC and Shibolet report:

### **\$419 million in private equity deals in Q3/2015; \$2.5 billion in the first nine months**

Key facts:

- Q3/2015 Israeli PE deal making drops 43% below the 5-year quarterly average
- Technology sector attracts \$1.8 billion - 75% of all PE transactions in Q3/2015
- Foreign PE funds cool down in Q3/2015 - only 29% of all Israeli private equity investments

*Tel Aviv, Israel, November 4, 2015.* In the third quarter of 2015, Israeli private equity deal-making fell to a mere \$419 million in 20 deals, following an exceptionally high Q2/2015, when 27 deals accounted for \$1.6 billion (the third highest quarter in the last four years). Moreover, the amount was 43 percent below the five-year quarterly average, which stands at \$738 million, but the number of deals was the same as the average. (Figure 1)

Despite the substantial quarter-over-quarter fluctuations, the Q1-Q3/2015 period turned out to be the most successful three-quarter span in Israeli private equity performance, with nearly \$2.5 billion invested in 66 transactions. These figures are higher than the \$2.3 billion invested in 60 deals in the first nine months of 2014, or the \$1.7 billion in 58 investments during the same period of 2013.

In Q1-Q3/2015, Israeli private equity funds invested \$672 million or 27 percent of total. This was a 24 percent increase, compared with \$543 million (24 percent) invested in the same term in 2014. The three largest deals over this period were buyout transactions, which accounted for 30 percent of Israeli PE fund investments, the largest of which was the \$97 million buyout of Hadera Paper by FIMI in Q2/2015.

While foreign private equity funds maintained their activity levels in terms of number of transactions, the volume of investments dropped to just 29 percent of total deal-making in Q3/2015, compared with 81 percent in Q2/2015, and 84 percent in Q3/2014 – the two strongest quarters for foreign PE activity in Israel. The largest deal in Q3/2015 was a \$50 million buyout of e-commerce company Payoneer performed by Wellington PE fund. In Q1-Q3/2015, the four largest deals performed by foreign private equity funds accounted for almost \$1.3 billion, or 52 percent, of total investments.

Omer Ben-Zvi, Partner at Shibolet & Co. points out a number of concurrent trends: "On the one hand, it can't be denied that private equity investments in the third quarter of 2015 were relatively low. This fact may be attributed to the volatility in capital markets in recent months, which is crucial when large deals in late stage companies are concerned. On the other hand, it's important to note that the number of deals and volumes are very similar to those of the first quarter of the year, with the entire period constituting an especially strong first three quarters. Therefore, I wouldn't conclude that the trend is turning, or that the Israeli private equity market is weakening simply based on the third quarter results. It is too early to conclude a down trend based on a single quarter, partly because the survey figures are strongly impacted by single large-size deals. Such deals are always few, but make up a sizable portion in capital investment. It is also important to note that PE deals often take around six months to close," Ben-Zvi explains.

In Q3/2015, 11 technology transactions accounted for \$233 million or 56 percent of total private equity investments. The amount was sharply down from \$1.3 billion (80 percent) invested in 11 deals in the previous quarter, and far below the \$1.6 billion (95 percent) invested in Q3/2014. However, the number of transactions has kept stable, compared with 11 deals and 10 deals closed by private equity investors in Q2/2015 and Q3/2014, respectively. (Figure 2)

According to Marianna Shapira, research manager at IVC: “While we observed a slowdown in in the last quarter, in the long-run the technology sector accounts for the largest part of private equity deal-making in Israel, being also the main target for the foreign PE investors. As demonstrated throughout the years, the ultimate majority of large transactions above \$100 million in Israel are performed by foreign private equity investors in technology companies. Therefore exceptionally high quarterly figures, such as those we’ve seen in the second quarter, usually stem from the remarkably large deals in this sector, especially when foreign investors are involved.”

Shapira believes the results in the third quarter have reflected a slowdown in foreign PE fund activity, which is temporary, “considering the increasing number of growth-stage high-tech companies in Israel, which represent potential PE targets. We expect to see the numbers turn back up for private equity deal-making by the end of the year or early next year,” she concluded.

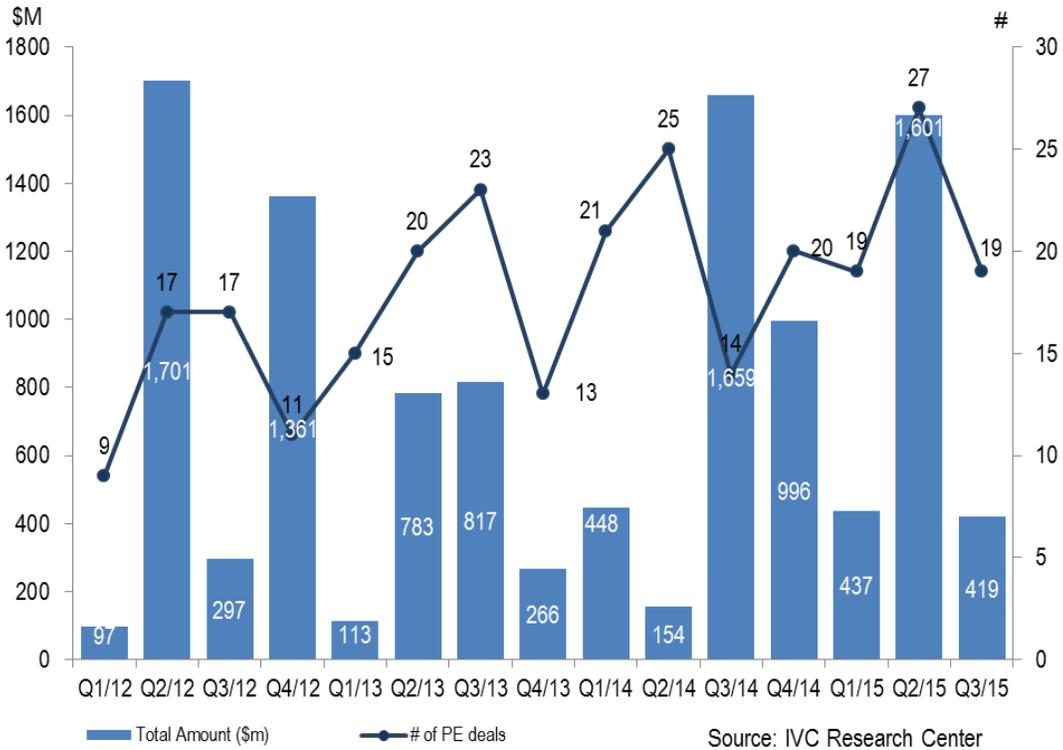
Omer Ben-Zvi agrees: "In light of the consistent number of deals made by foreign PE investors and investments in technology companies in the last quarter, together with our estimate that more than a few technology companies in Israel are at a stage fit for private equity funds to join in, I would estimate that the private equity market's uptrend we have been seeing in the last couple of years, will continue."

### **Israeli private equity investors**

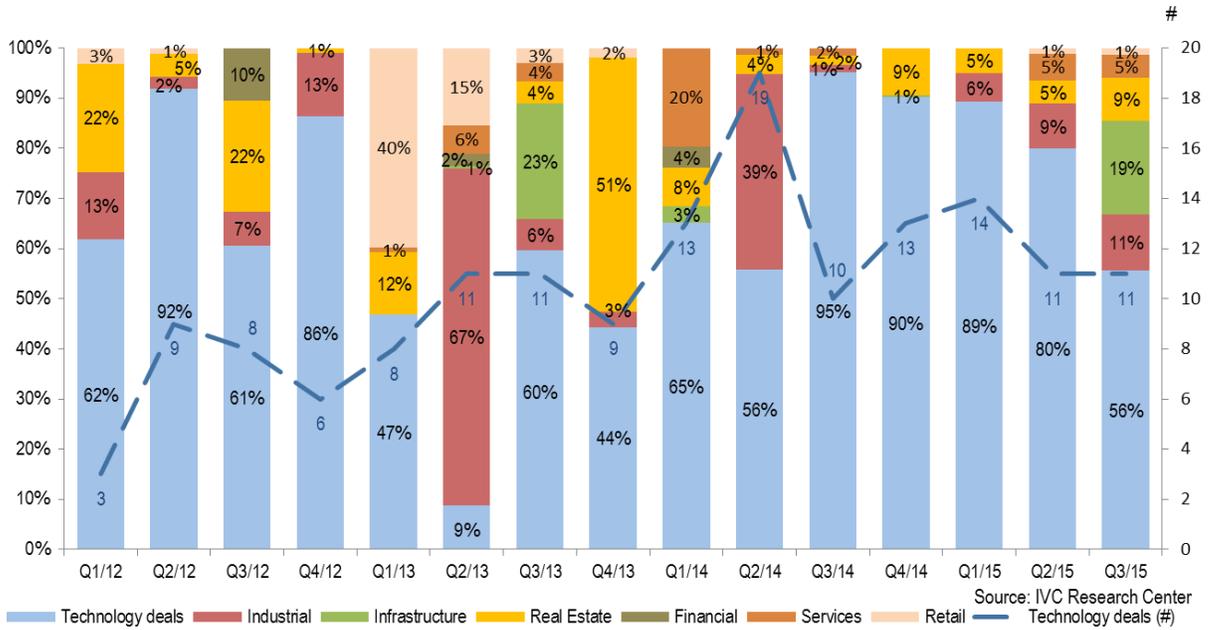
The IVC-Online Database maintains data on 28 active Israeli private equity management companies with a total of \$7.97 billion under management.

In the first nine months of 2015, six Israeli private equity funds raised approximately \$1.1 billion, and five other funds are engaged in fund raising, expected to close some \$0.3 billion by the end of the year.

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



**Figure 2: Private Equity Investments by Sector by Quarter (% of \$M)**



**Methodology**

The Summary of Israeli Private Equity Deals Q3/2015 reflects information developed from IVC's Quarterly PE Survey, sponsored by Shibolet, 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 76 private equity funds of which 25 are Israeli and 51 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](http://www.ivc-online.com)).

**For additional information:**

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[IVC Research Center](http://www.ivc-online.com) 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](http://www.ivc-online.com)) showcases over 13,000 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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