

The Israeli Private Equity Market, Q1/2016

IVC and Shibolet report:

Israeli private equity activity drops in Q1/2016: \$265 million invested in 15 deals

Key facts:

- 69% decrease in private equity deal making in Q1/2016 from the previous quarter
- Technology sector leads: Software dominates PE market with 64% of all dollar proceeds
- Straight equity continues as favored investment mechanism – 80% of deals in the quarter

Tel Aviv, Israel, May 9, 2016. The first quarter of 2016 saw private equity investments in Israel take yet another dive, with only \$265 million invested in 15 private equity deals. Our data show a drop in both the number of deals and dollar proceeds, with a 46 percent decrease from the \$488 million invested in 21 deals in Q1/2015 and a 69 percent drop from \$855 million invested in 21 deals in the fourth quarter of 2015 (Figure 1).

Contrary to most previous quarters, characterized by at least one deal exceeding the \$100 million mark, no private equity deals placed in Q1/2016 managed to reach that amount, keeping the average deal at \$17.7 million, lower than 2015's average. The largest deal in the first quarter of 2016 was the \$80 million buyout of Skybox Security by foreign PE fund Providence Strategic Growth.

Israeli private equity funds invested a modest \$114 million in Q1/2016, or 43 percent of total investments. This represented a 17 percent year-on-year decrease from the \$137 million invested in Q1/2015, and a whopping 51 percent decline from the \$232 million invested in Q4/2015. The largest deal performed by an Israeli fund in the first quarter was the \$40 million buyout of Continuity Software, an enterprise applications company, by Kedma.

Despite foreign private equity funds leading investments in Q1/2016 - including the largest quarterly deal, by Providence Strategic Growth - their total investment activity in the Israeli market fell. Foreign PE funds invested \$151 million in the first quarter of the year, a 51 percent year-on-year decline (Q1/2015 – \$307 million) or 63 percent of total, and 64 percent below the \$423 million (49 percent) recorded in Q4/2015 (Figure 2).

Omer Ben-Zvi, Partner at Shibolet & Co., believes it is too early to point at a continuous slowdown in the Israeli private equity market: "The number of deals, and even more so – the total amount of Israeli private equity transactions closed during Q1/2016 – demonstrate a substantial decrease compared to the quarterly volume we are used to seeing since mid-2014. However, there are positive signs: We have seen an improvement in financial markets in the first quarter, and there are already deals underway we are tracking in second quarter. Other signs include the \$1.1 billion closing of FIMI VI in Q1/2016, and the attractive valuations achieved lately by mature Israeli tech companies."

The technology sector accounted for the majority of private equity investments in Q1/2016, with a staggering 94 percent of the deals, as all but one deal focused on technology companies. Fourteen deals garnered \$250 million, up 67 percent from the mere \$149 million (17 percent of total) invested in 13 deals in the last quarter of 2015. The number was still 23 percent lower than the \$324 million (66 percent of

total) invested in 13 deals in Q1/2015. Within the technology sector, deals in software companies led, with five deals accounting for 64 percent of total dollar proceeds, mostly due to the Skybox (\$80 million) and Continuity Software (\$40 million) buyout deals.

An analysis of the types of deals performed by private equity funds shows straight equity deals continue to lead as the favored investment mechanism, with 80 percent of deals in the quarter, continuing on a trend which began in 2015. However, though buyout deals were fewer in number, they yielded the same amount as straight equity deals, owing to their inherent larger size. While the average buyout deal in the quarter stood at \$60 million, the average straight equity deal reached \$11 million only. The largest straight equity deal in Q1/2016 was a \$30 million investment in ForeScout, a security company, performed by Wellington, a foreign PE fund.

Marianna Shapira, Research Manager at IVC, says these two trends are interlinked: “We believe there is a connection between investment trends in technology companies and the straight equity investment model we presented. The Israeli high-tech industry is currently faring better than other tech markets around the world, continually offering superb investment opportunities at relatively low valuations. This creates competition on potential technology deals, which challenges Israeli PE funds to adapt and find creative investment models.” Shapira explained: “Richer foreign funds are targeting the higher-end deals, particularly buyouts, and Israeli growth-stage VCs target high-tech companies in particular. As a result, Israeli PE funds prefer the direct approach, entering technology deals at earlier stages, using the straight equity model, rather than risk waiting for later stages and more competition to drive valuations up,” she concluded.

Israeli private equity investors

According to the IVC-Online Database, 37 Israeli private equity management companies are currently active, with a total capital of nearly \$9 billion under management. Only one Israeli private equity company raised capital in 2016 so far – FIMI – which closed \$1.1 billion in its sixth fund. Five additional funds are in the process of raising capital, targeting an approximate total amount of \$900 million.

Methodology

The Summary of Israeli Private Equity Deals Q1/2016 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 78 private equity funds of which 33 are Israeli and 45 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.ivic-online.com).

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

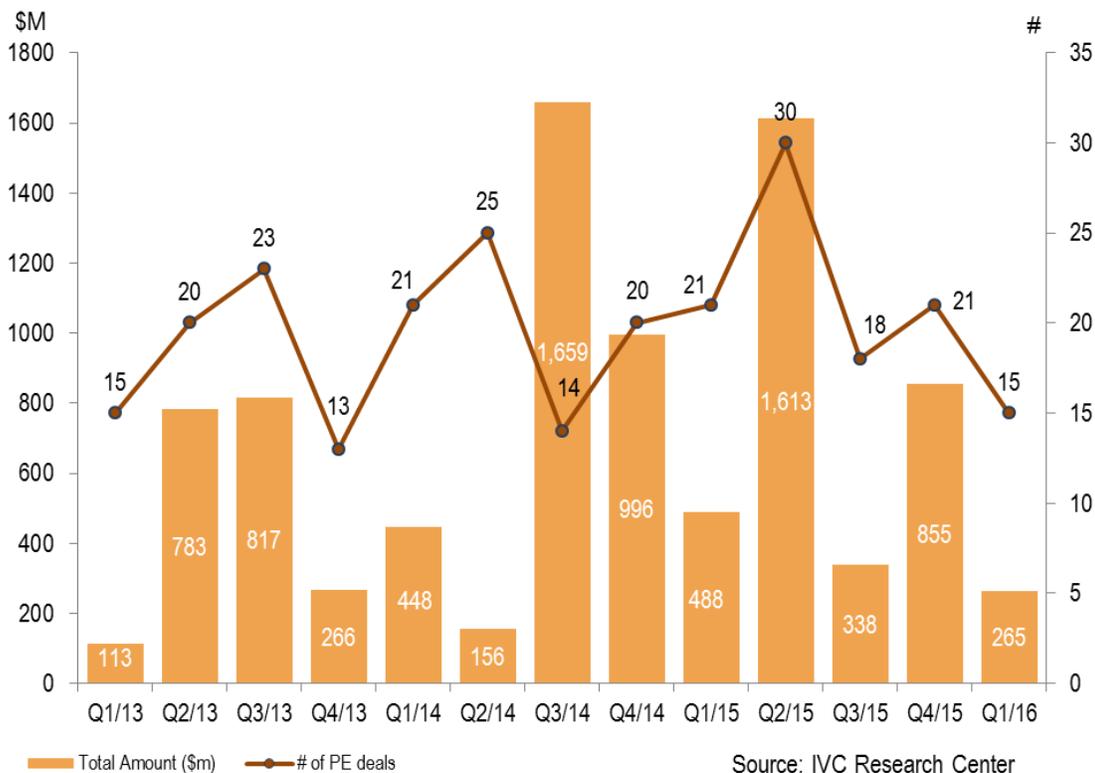
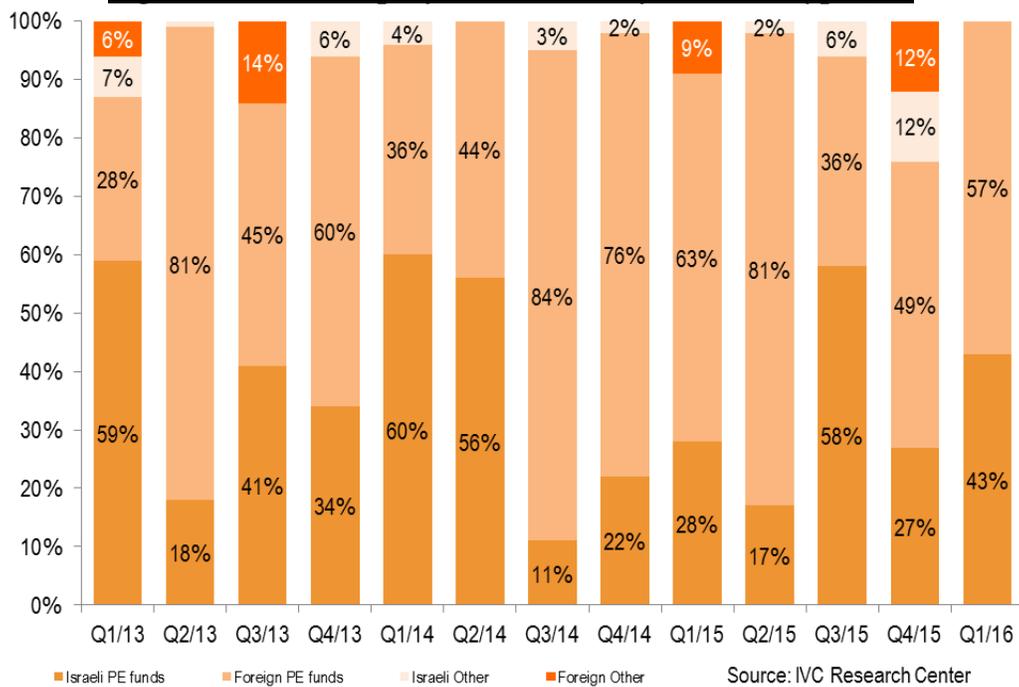


Figure 2: Private Equity Investments by Investor Type (%)



About the authors of this report:

[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 15,000 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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