

The Israeli Private Equity Industry – Q2/2017

IVC and Shibolet report:

Private Equity funds invested \$807 million in the first half of 2017 - the lowest amount in three years – assuming a safe investment strategy

Key facts:

- Number of Israeli private equity deals grow in H1/2017– 17% up from H1/2016
- Israeli PE funds' investments improve in H1/2017 – \$470 million following a very active Q1/2017
- Foreign PE funds' capital investments decrease in Q2/2017, with \$248 million invested – down from \$1.1 billion in Q2/2016

Tel Aviv, Israel, July 31, 2017. In Q2/2017, Israeli and foreign private equity funds participated in 19 private equity transactions, investing a total of \$412 million. Notably, less deals were performed this quarter compared to Q2/2016 (22 deals) and Q1/2017 (29 deals), a 21 percent decrease from the three-year quarterly average (24 deals). The total amount invested by private equity funds in Q2/2017 was slightly up from the \$396 million invested in Q1/2017, but significantly lower than the \$1.26 billion invested in Q2/2016. (Chart).

The first half of 2017 was sluggish, with 48 deals reaching \$807 million, the lowest amount invested by private equity funds in three years, compared to the \$1.52 billion and \$2.07 billion invested in H1/2016 and H1/2015, respectively. Despite the decrease in capital, the number of deals grew 17 percent year-on-year from 41 transactions in H1/2016, slightly below the five-year average of 50 private equity deals.

Adv. Omer Ben-Zvi, Partner at Shibolet & Co., expands on the half-year findings: "Although the number of Israeli private equity deals grew in H1/2017, we have not yet seen any mega deals since the beginning of this year, which typically immensely affect the total dollar amount scope. The largest PE deal in H1/2017 was the \$140 million buyout of R2Net by Francisco Partners, as all other deals during that term amounted to \$50 million or less." However, Adv. Ben-Zvi added: "Recently the press reported a forecasted \$400 million buyout of Francisco Partners' equity in NSO by Blackstone. This joins some other major deals already announced in Q3/2017, such as the \$100 million buyout of Tutenour by Israeli PE fund Fortissimo, and a \$75 million investment by Insight Venture Partners in WalkMe. Israeli private equity market, according to our observation, demonstrates a stable activity and continues to be a steady attraction for overseas private equity firms. We believe, that although the market is cautious in terms of valuations, there are great Israeli opportunities for substantial private equity deals to come." explains Adv. Ben-Zvi.

Israeli private equity funds participated in a mere eight deals in Q2/2017, investing \$164 million, or 40 percent of total PE capital, almost equal to the \$161 million invested in Q2/2016, but 46 percent lower than the \$306 million invested in Q1/2017. The number of transactions in Q2/2017 was 43 percent below the five-year average, down from 16 and 10 deals in Q1/2017 and Q2/2016, respectively. **AMI Opportunities** performed the largest transaction - for \$47 million - purchasing 55 percent of Max Stock in a buyout deal in Q2/2017.

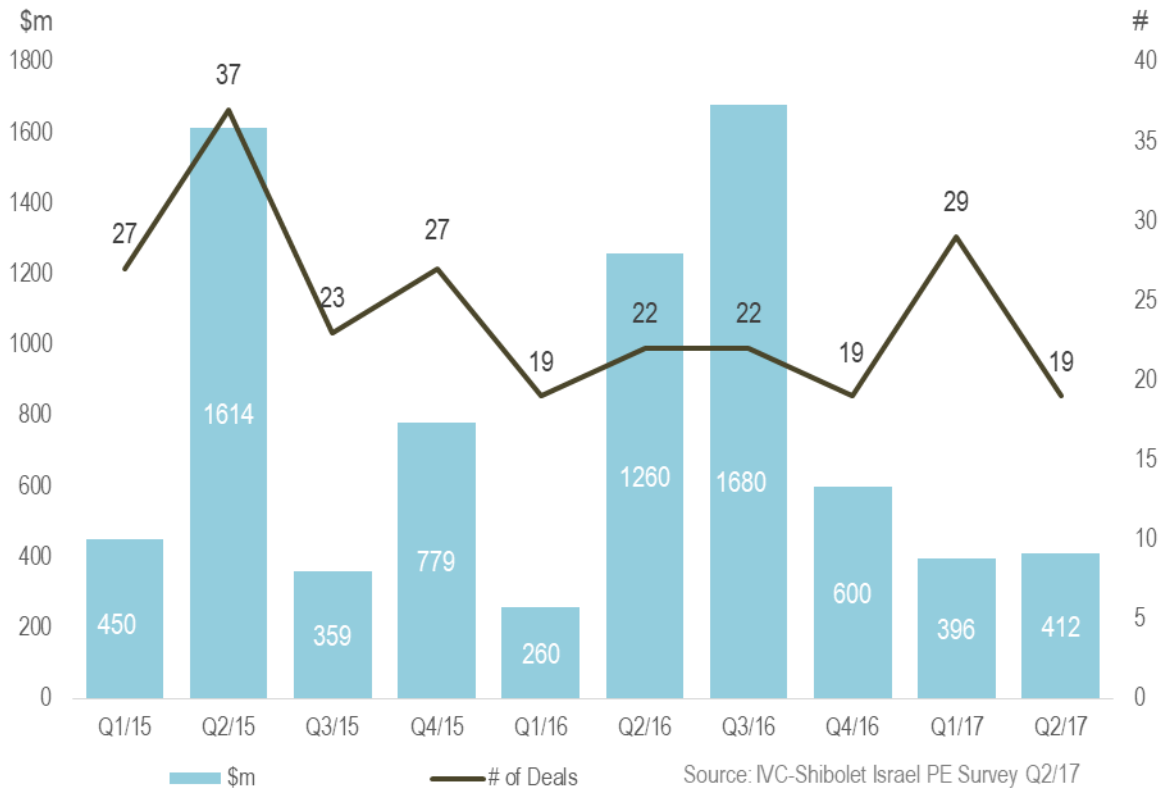
Despite the slow second quarter, the IVC-Shibolet survey revealed that Israeli PE funds performed better in the first half of 2017 compared to H1/2016, both in terms of deal number (24 vs. 20) and amounts invested (\$470 million vs. \$271 million). This was mostly due to their successful first quarter of 2017, when the two largest deals were struck - the buyout of Telefire Fire & Gas Detectors by **Tene Growth** for \$76 million and the \$50 million buyout of Ace Auto Depot by **Kedma**.

In Q2/2017, \$248 million (60 percent of total PE investments) were invested by foreign private equity funds in Israeli companies, up from a mere \$90 million (23 percent of total) invested in Q1/2017 (the lowest quarterly amount in three past years), but dramatically below the \$1.1 billion invested in Q2/2016, when foreign funds led with 87 percent of all PE investments. **Francisco Partners** performed the largest deal among foreign PE funds in Q2/2017 – the \$140 million buyout of R2Net, which alone accounted for 57 percent of the foreign PE funds' quarterly investments.

According to Marianna Shapira, Research Manager at IVC Research Center: "In H1/2017, we observed seemingly contradictory findings in the private equity market in Israel: a growth in the number of deals, combined with a decrease in the amount of capital invested. This stems from two complementary trends - increased deal-making by Israeli PE funds from the first quarter (which, however, decelerated towards the middle of the year) combined with average levels of activity by foreign PE funds (25 deals), as in the past three years – resulted in a higher number of deals." Shapira continued: "In terms of capital investments, foreign PE funds spend noticeably less capital in H1/2017 - \$337 million, or a 59 percent decrease from the five-year average of \$816 million. This reflected the low buyout activity of foreign PE funds (only one \$140 million buyout was registered in H1/2017), while, on average, buyout deals involving foreign PE funds are above \$300 million per deal. Though Israeli funds performed above their average investment level of the past three years (a 19 percent increase) in H1/2017, the amounts they invested have less impact in terms of total capital investments. The combination of those trends points out that private equity funds apply a cautious investment strategy, preferring dispersing smaller amounts among larger number of deals in the first half of 2017." concluded Shapira.

According to IVC Research Center's analysis, 41 Israeli private equity management companies are currently active, managing a total of \$13 billion in capital, with an estimated \$1 billion available for new investments. In the first half of 2017, only **Sky Private Equity III** closed capital, raising \$200 million; five other funds are in the process of raising capital.

Chart: Israeli Private Equity Deals, Q1/15-Q2/17 (\$M)



Methodology

The Summary of Israeli Private Equity Deals Q2/2017, sponsored by Shibolet & Co., reflects information derived from The IVC-Online Database (www.ivc-online.com) and a Quarterly PE Survey information received directly from the funds. The Survey reviews Israeli private equity deals involving Israeli and foreign private equity funds and other investors, both Israeli and foreign. The current survey monitors the past five-year activity of 155 private equity funds of which 37 are Israeli and 118 are foreign. This survey reviews the following types of private equity financing deals: straight equity, buyouts, mezzanine, distressed debt and turnaround/distressed equity. A full report including analysis of PE fundraising and the Most Active PE Fund ranking appears in the [2017 IVC High-Tech Yearbook](#), published in May.

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- IVC-Online Database (www.ivc-online.com) showcases over 16,000 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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