The PwC Israel 2016 Hi-Tech Exit Report

Opening remarks

Rubi Suliman
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PwC Israel

After Israeli tech exits reached new highs in 2014 and 2015, along came 2016 and brought us back down to earth. Acquisition deals plummeted from $7.2 billion in 2015 to $3.4 billion in 2016. IPOs by tech companies have all but come to a screeching halt, compared to $3.4 billion worth of IPOs in 2015.

A deeper crisis or just a rough patch?

Should we be worried by the weaker year? Some will no doubt see 2016 as ushering in a prolonged slowdown. But a closer look shows that things are actually not as bad. For one, this year is definitely not anywhere near what we experienced in 2000 and 2008. And, it is even fair to say that there is no apparent cause for this fall in the overall number of exits. What actually slowed down were mainly the huge deals that we've seen in recent years. To get a sense of this, the ten largest deals in 2016 were valued $2.5 billion, compared to $4.6 billion in 2015.

So what actually went wrong?

The same buyers are still in the Israeli market, and some have even increased their presence here. Interest rates remain low and the existing investment alternatives are essentially the same. Nothing has changed much. And in fact, this stagnant demand side might be part of the reason for 2016. As the pool of potential buyers stays the same, it would be only natural for the market to take a breather after the latest boom in acquisitions. Buyers need some time offline to reap as much benefit from the technologies and companies they already have, and then to check potential new technologies for investment. Acquisitions and post-merger integration are complex tasks for every enterprise, no matter how large, and require considerable resources to ensure that the M&A is successful. A notable support for this hypothesis is the fact that this year's large buyers are significantly different than those we've seen last year. In monetary terms, 87% of acquisitions in 2015 were not by those buying in 2016.

The largest deals this year were by Oracle, Sony, Dentsply Sirona, Cisco and Francisco Partners (which is the only of those that also made a significant acquisition last year and the sole financial buyer, rather than strategic). This leads to a conclusion that despite the massive global presence in Israel, and globalization in general, there are still not enough global buyers that are familiar and comfortable enough with Israeli Hi-Tech to drive a continuous wave of deals. And when potential buyers are relatively scarce, deal prices are expected to go down. This is a problem, but also an opportunity, since it points to the enormous potential of the local tech industry.

The Playtika deal

In 2016, the Israeli tech company Playtika was acquired by Giant Interactive Group from China at $4.4 billion. This transaction is not included in this year's report since we felt it should not be counted as an Israeli exit, even though Playtika is technically an Israeli company and its value is created by Israeli employees. Playtika was originally sold in 2014 to Caesars Interactive Entertainment, which this time around was the most prominent party behind the deal. For this, we decided not to include the deal in the Israeli exit report. Including this deal would have made total exit value jump to $8 billion in 2016. It could be argued against our judgment. It is clear, however, that the Playtika deal is the largest ever by a Chinese corporation in Israel, and we are expected to see many more similar deals in years to come.

What to expect next?

A lot of good news come from the availability money for investing in Israeli Hi-Tech. Local and international VCs, strategic investors, angels and others are all present in the market and have considerable resources at their disposal, possibly more than ever before. Those tech companies that will proactively build value for the long run are set to benefit from a renewed wave of acquisitions in the not-so-distant future. It would be wise to get there mature and ready with as much value and innovation on offer, as new players are entering the local market all the time, and others are sure to follow in the future. Chief among those will be Chinese investors, who are growing increasingly comfortable with doing deals in Israel, like in the Playtika deal. Israeli innovation is still strong, and the amount of experience gained while running those successful companies is increasing every year. This alone should make us optimistic looking ahead. We will clearly have many more boom years later on.

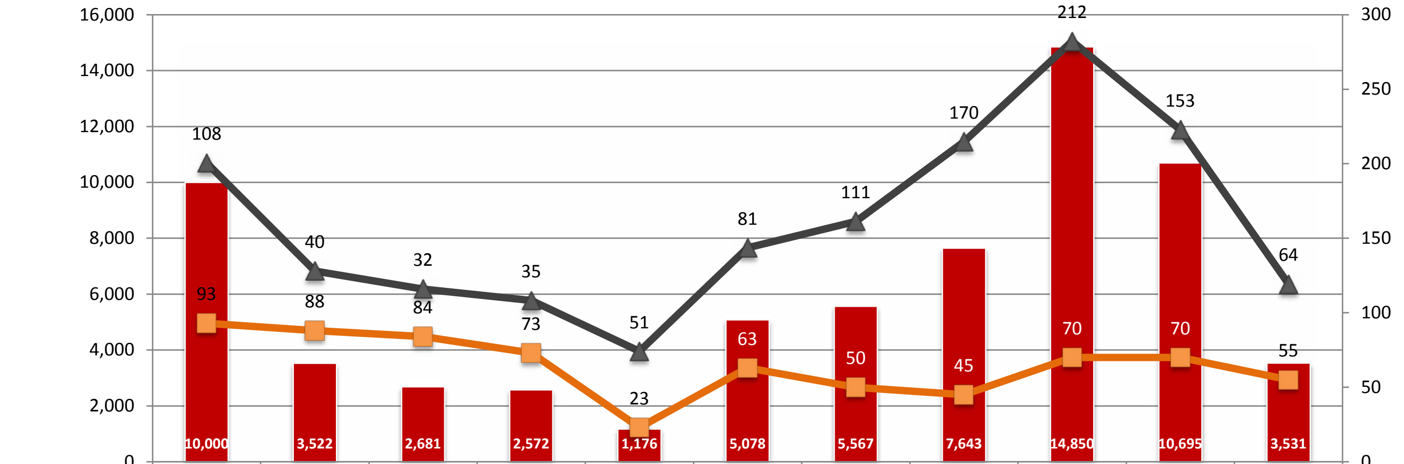
Wishing you a great year,

Rubi Suliman
Hi-Tech Leader
PwC Israel

Exits by years

Total exits – IPOs and M&As in 2006-2016 (million $):

Total value of Hi-Tech exits in 2016 (both IPOs and M&As) was $3.5 billion, a 67% decline from 2016 ($10.69 billion). There were 55 exits in 2016, lower than both 2015 and 2014, with 70 exits each. The average value per exit in 2016 was $64 million, down from $153 million in 2015.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total amount	10,000	3,522	2,681	2,572	1,176	5,078	5,567	7,643	14,850	10,695	3,531
Average deal size	108	40	32	35	51	81	111	170	212	153	64
Number of deals	93	88	84	73	23	63	50	45	70	70	55

Notes:

Playtica was acquired by Giant Interactive Group in 2016 for $4.4 billion. Since this is the second time Playtica is acquired (the first was in 2014 by Caesars Interactive Entertainment), and as such, involves no significant exit by Israeli shareholders and entrepreneurs. This is why we decided not to include this deal in the exit report, even as it is clear that this deal involves an Israeli company whose valued is created mainly by Israeli employees.

The $800 million Ezchip deal was included in the 2015 PwC Israel Exit Report and therefore not included this year.

Xura (formerly Comverse), which was acquired in a buyout deal for $643 million is not included in this report since it was already a public company, meaning that its exit actually took place in the past.

Otto, which was sold to Uber for $680 million, is not included in this report. The Company is owned by an Israeli expatriate, but is incorporated in the US and not active in Israel.

RRmedia which was acquired for $242 million by SES is not included in this report since it was already public at the time of acquisition.

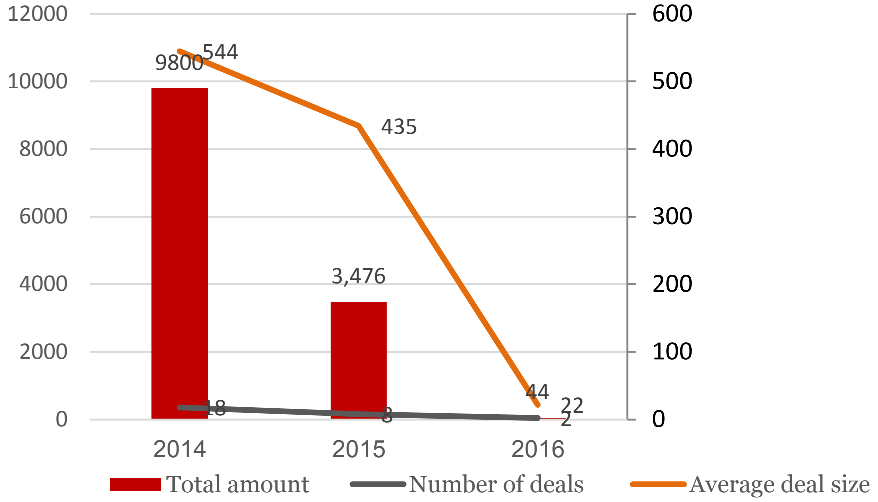
The report only refers to exits with more than $5 million in value.

Top10 Deals

ravello systems	$430m	ORACLE	IT & Enterprise Software
SintecMedia Media Business Solutions	$400m	FP Francisco Partners	IT & Enterprise Software
MIS	$375m	Dentsply Sirona	Life Science
leaba semiconductor	$320m	CISCO	Semiconductors
CloudLock	$293m	CISCO	IT & Enterprise Software
altair semiconductor	$212m	SONY	Semiconductors
freeD Free Dimensional Video Replay Technologies	$175m	intel	Internet
Galil Medical Leading Through Innovation	$110m	BTG	Life Science
BlazeMeter	$95m	ca technologies	IT & Enterprise Software
pontis	$90m	amdocs	Communications

IPOs vs. M&As:

Total annual exits - IPO only 2015-2016 ($ in millions):

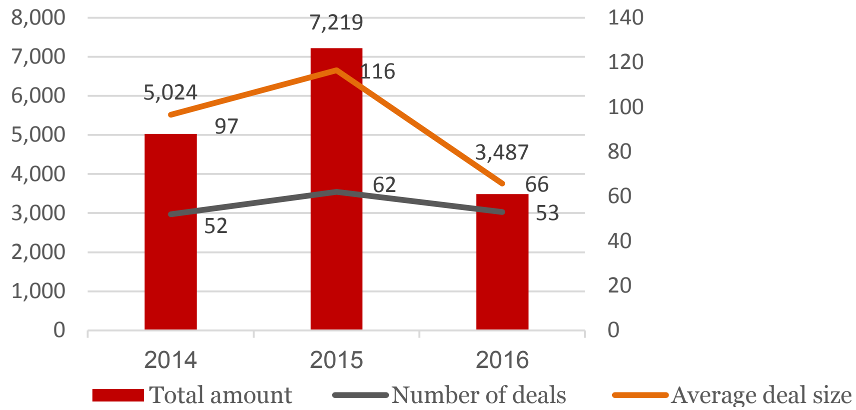


Only two IPOs by tech companies took place in 2016, a significant drop from 2015 (8 IPOs) and 2014 (18 IPOs).
trendIT raised $5.9 million on a valuation of $17.3 million on LSE.
Vonetize raised $4.2 million on a valuation of $26 million on TASE.

IPOs in 2016 totaled $44 million.

Total annual exits - M&A only 2014-2016 ($ in millions):

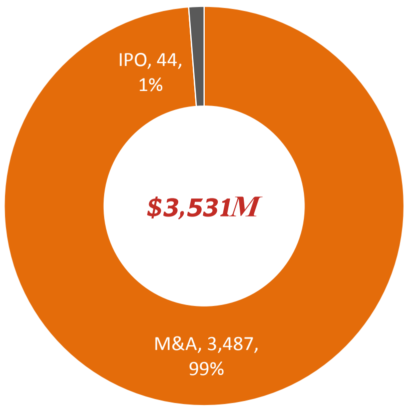
The total deal value in 2016 ($3.48 billion) indicates a 51% drop in total deal value relative to 2015 ($7.2 billion).
The number of deals in 2016 (53) is similar to 2014 (52). However, it can be seen that average deal size is $66 million, down from $97 million in 2014.



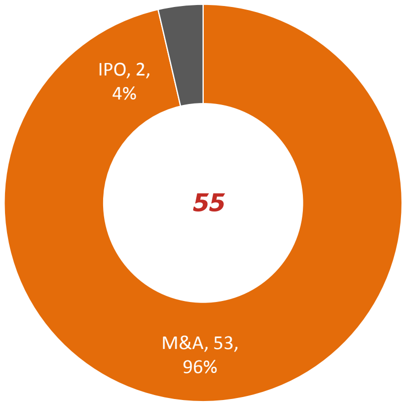
IPO vs. M&A -Continue

As can be seen, capital markets are completely closed to Israeli companies. average deal size is $66 million, down from $97 million in 2014.

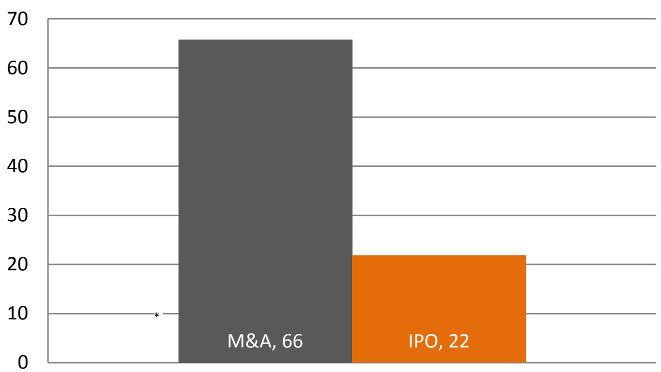
Total amount (in $ millions)



Number of deals

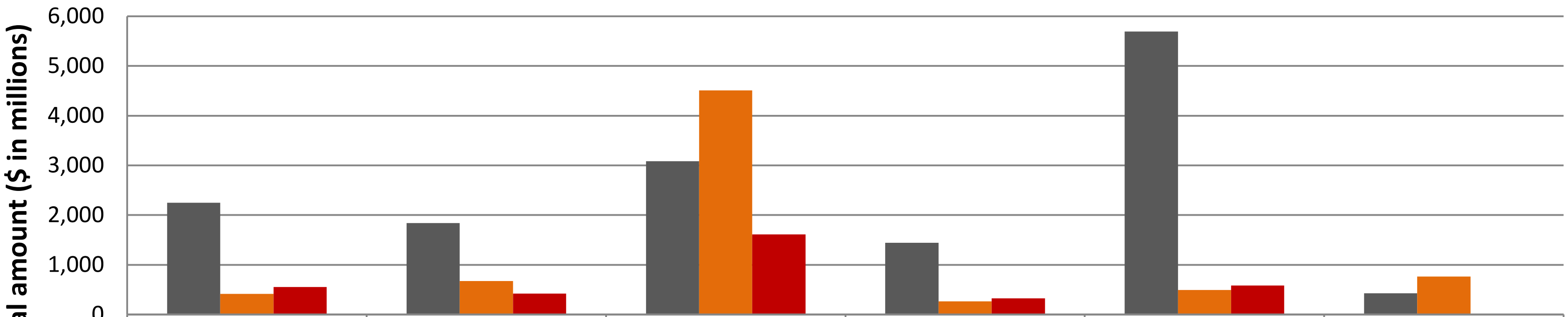


Average deal size (in $ millions)

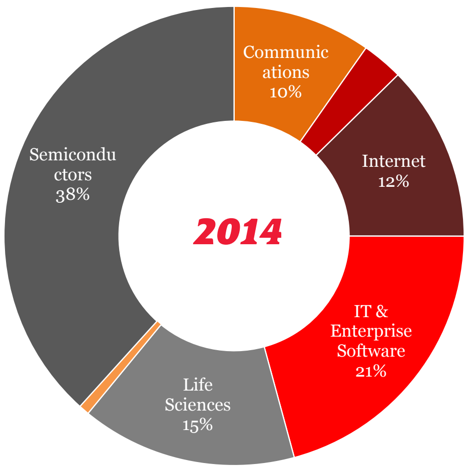


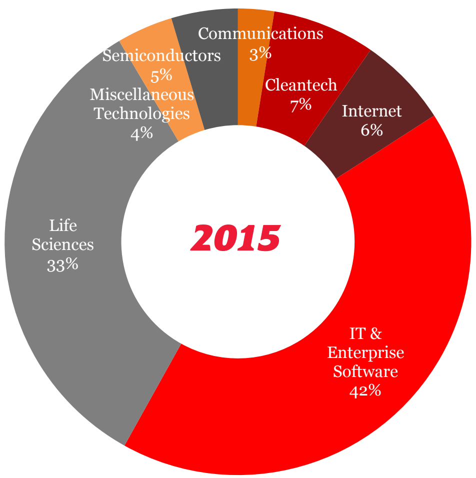
Analysis by sectors (general):
IPOs and M&As 2014-2016:

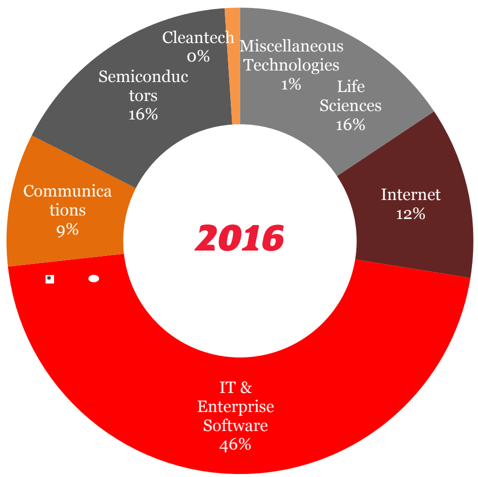
It can be seen that similarly to 2015, most exits in 2016 are in the IT & Enterprise Software sector. At the same time, life sciences was amounted to 15% of total exits and Cleantech was left without a single exit.



	Life Sciences	Internet	IT & Enterprise Software	Communications	Semiconductors	Cleantech
2014	2,251	1,841	3,084	1,444	5,690	430
2015	416	672	4,511	267	493	763
2016	552	421	1,613	326	582	0

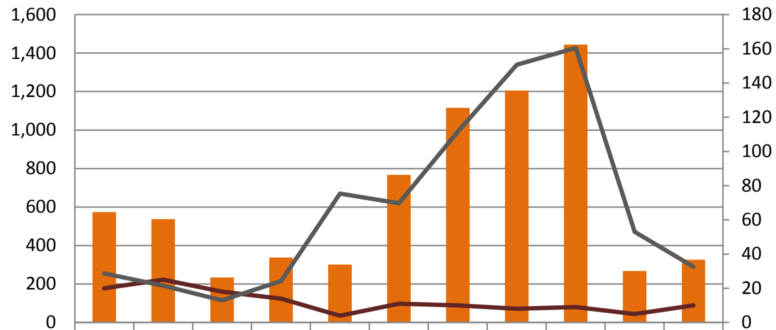






Analysis by sectors (detailed):
IPOs and M&As 2006-2016 (million $):

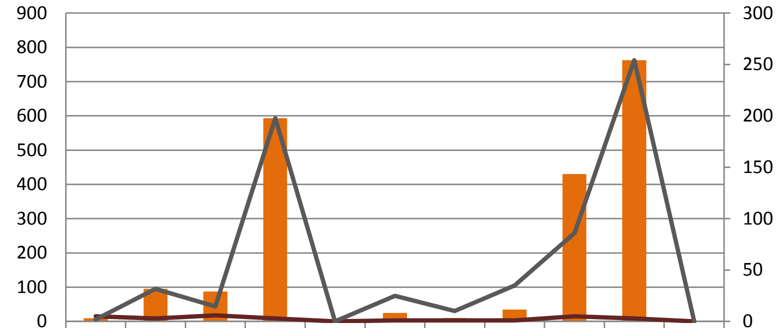
Communications



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total amount	574	537	234	338	302	768	1,116	1,206	1,444	267	326
Number of deals	20	25	18	14	4	11	10	8	9	5	10
Average deal size	29	21	13	24	75	70	112	151	160	53	33

Growth in the Communications sector in 2016 was mainly driven by the $90 million Pontis acquisition.single exit.

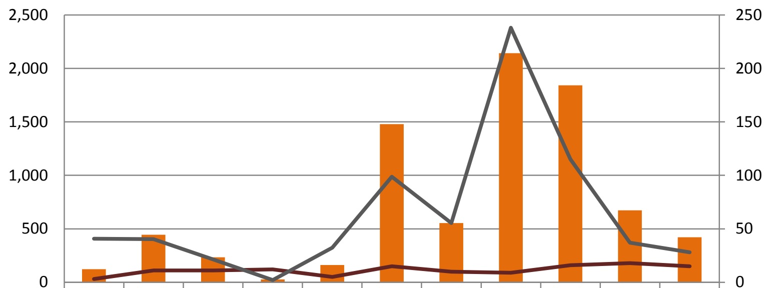
Cleantech



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total amount	9	95	87	593	0	25	10	35	430	763	0
Number of deals	5	3	6	3	0	1	1	1	5	3	0
Average deal size	2	32	15	198	0	25	10	35	86	254	0

Compared to 2015, which had abundant of large Cleantech deals - led by the Solaredge IPO - there were no deals in this sector in 2016.

Internet

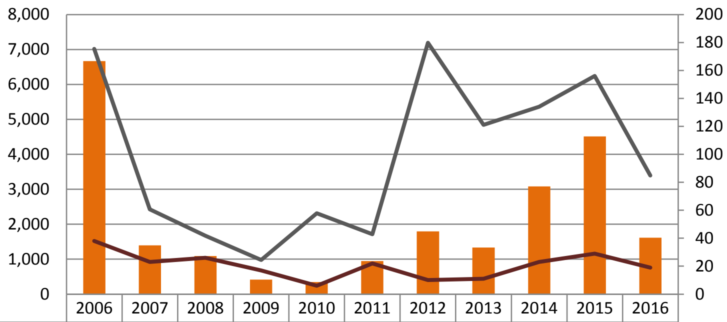


	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total amount	122	444	235	27	162	1,480	554	2,142	1,841	672	421
Number of deals	3	11	11	12	5	15	10	9	16	18	15
Average deal size	41	40	21	2	32	99	55	238	115	37	28

The downtrend in the internet sector in 2015 continued in 2016, both in terms of deal number and value, and that despite the Replay acquisition by Intel for $175 million.

Analysis by sectors (detailed)-Continue:
IPOs and M&As 2006-2016 (million $):

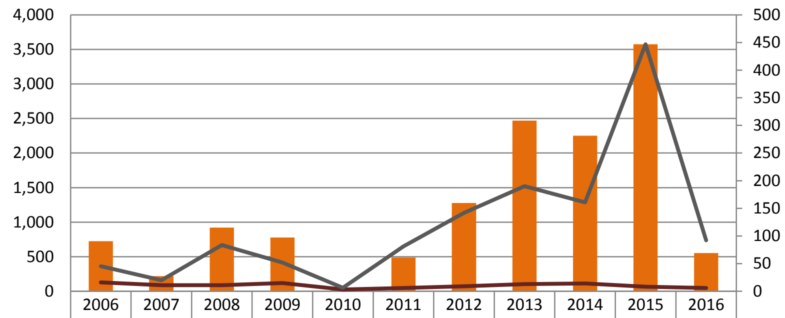
IT & Enterprise Software



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total amount	6,669	1,395	1,088	416	347	945	1,798	1,332	3,084	4,511	1,613
Number of deals	38	23	26	17	6	22	10	11	23	29	19
Average deal size	175	61	42	24	58	43	180	121	134	156	85

The continued growth of IT & Enterprise Software sector in 2016 was mainly carried by three large deals: Ravello, which was acquired by Oracle for $430 million; Sintec Media, which was acquired by Francisco Partners for $400 million; and CloudLock, acquired by Cicso for $293 million.

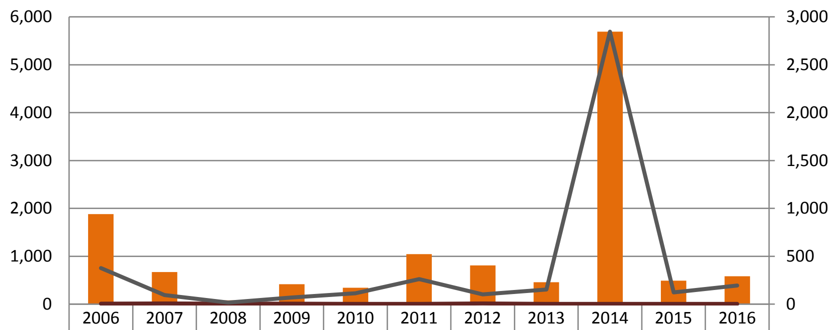
Life Sciences



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total amount	724	220	920	778	18	488	1,276	2,471	2,251	3,574	552
Number of deals	16	11	11	15	3	6	9	13	14	8	6
Average deal size	45	20	84	52	6	81	142	190	161	447	92

The life science sector saw one of the largest deals in 2016 - the $375 million acquisition of Mis Implant by Dentsply Sirona. Apart from that, total deal value was markedly lower relative to 2015.$175 million.

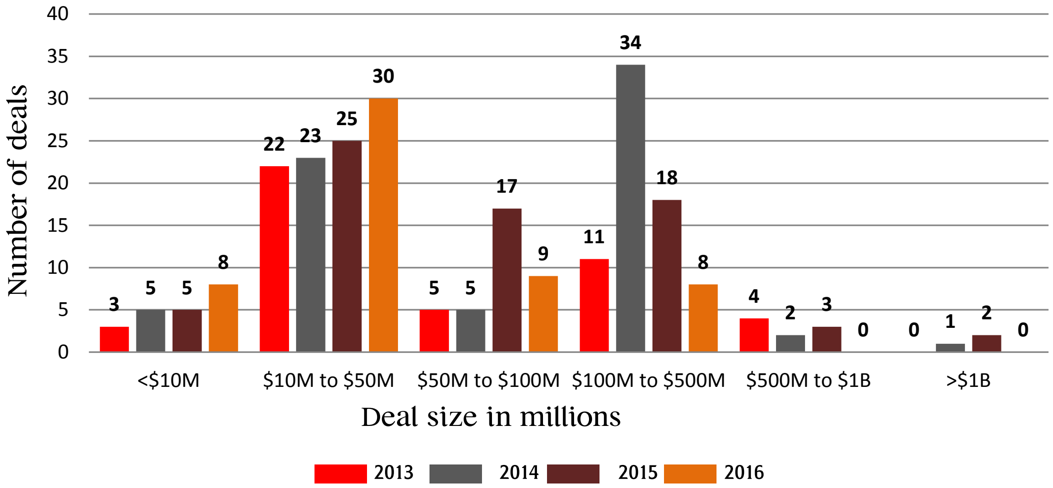
Semiconductors

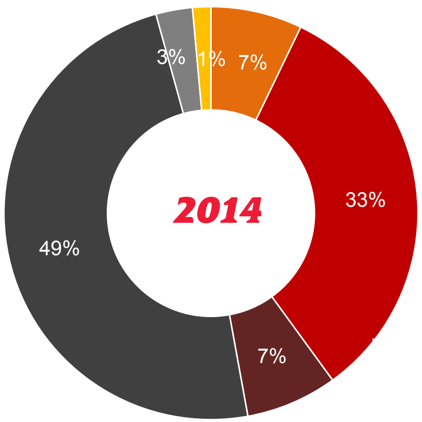


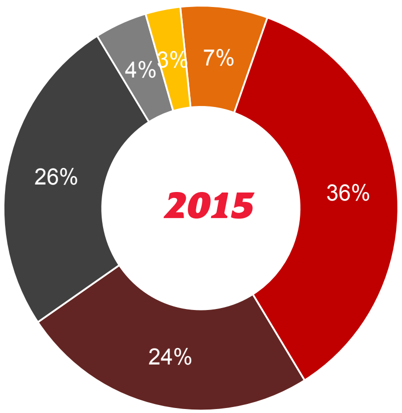
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total amount	1,883	672	80	419	341	1,046	812	458	5,690	493	582
Number of deals	5	7	5	6	3	4	8	3	2	4	3
Average deal size	377	96	16	70	114	261	101	153	2,845	123	194

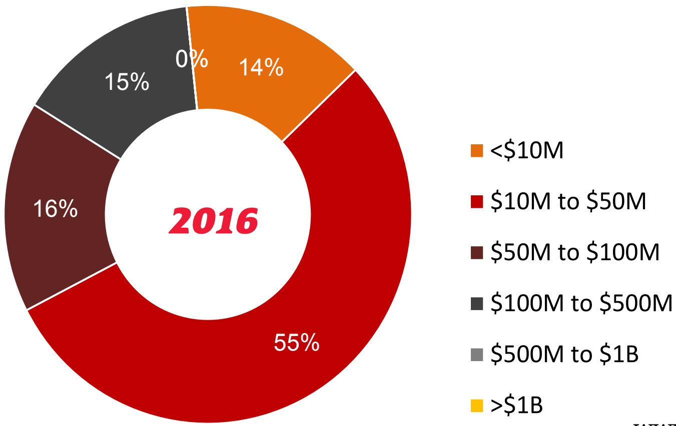
The semiconductors sector is the only one in 2016 that experienced an increase relative to 2015, thanks to the Cisco acquisition of Leaba for $320 million.

Analysis by deal size:
In 2016, no deals of over $500 million took place, in contrast with recent years.









M&As: Buyers by geography

Number of M&A deals — *Total amount of M&A deals ($ in millions)*

Note: if the Playtika deal had been included in the report, Chines buyers would have represented 54% of deals.

For further information

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**The report refers to both asset purchase and share purchase M&A deals of Israeli companies or companies that have a significant Israeli affiliation.*

*** The report refers only to exits with a value greater than $5 million and exits where the exit amount was made public.*

****2006-2016 data based on IVC database.*

An exit is defined as either closing of a share acquisition deal asset acquisition deal or activity by a target company for cash or shares of the buyer. An exit is also an initial public offering (IPO) on any stock exchange.

IPO values are based on IPO pricing.

IPO values in this report are based on market caps of companies on the date of IPO pricing.