Quarterly review

Q2-17 M&A activity in Israel

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Summary of findings

- Global M&A activity in Q2-17 reached a total deal value of USD 742.8 billion, a 1.4% decrease compared to Q2-16, and a 0.9% decrease compared to Q1-17.
- During Q2-17, M&A activity involving Israeli targets reached a total disclosed deal value of USD 583 million, a 75.4% decrease compared to Q2-16 and a 46.2% decrease compared to Q1-17.
- The US led cross-border transactions, completing 5 deals with a total disclosed value of USD 272 million, including the largest transaction of the quarter, the acquisition of Caesarea Medical Electronics Ltd by Becton Dickinson for USD 150 million.
- Average deal size for cross border transactions decreased from USD 195.6 million in Q2-16 to USD 45.3 million in Q2-17, mainly due to lack of large transactions in this period. For local deals, average deal size increased from USD 26.9 million to USD 55.3 million between Q2-16 and Q2-17
- During Q1-17, 157 Israeli-based high-tech companies raised a total of USD 1,262, a 19.1% increase compared to Q1-17 and a 26.4% decrease compared to Q2-16. The average financing per company totaled USD 8.04 million, 17.5% higher than the Q1-17 average and 9.0% lower than the Q2-16 average.

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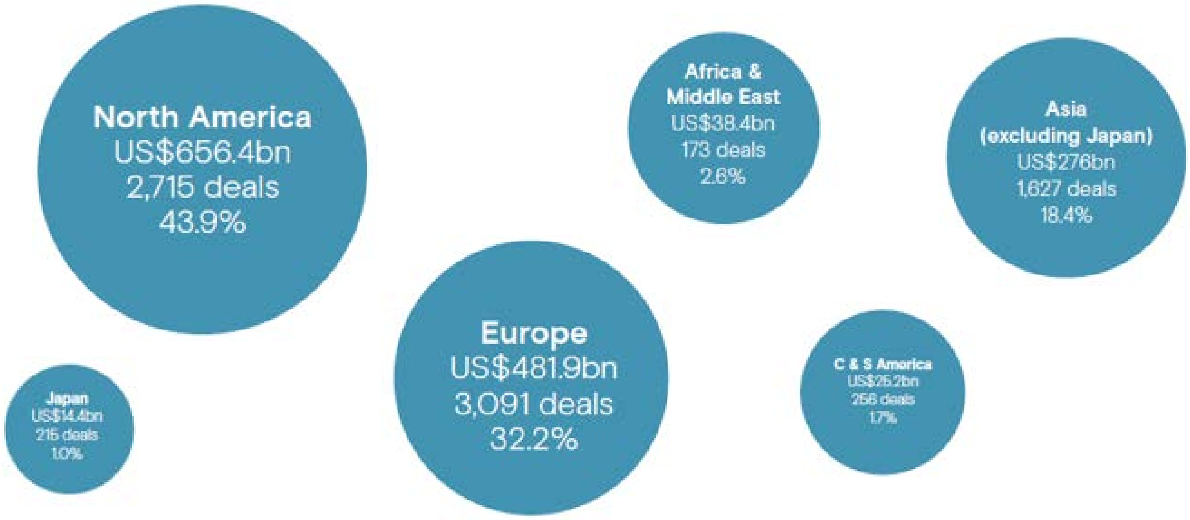
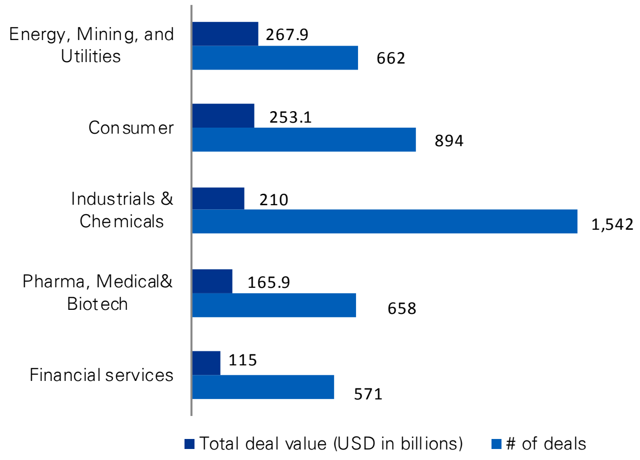
The global setting

Global M&A activity in Q2-17 reached a total deal value of USD 742.8 billion, a 1.4% decrease compared to Q2-16 (USD 753.4 million) and a 0.9% decrease compared to Q1-17 (USD 749.5 million). From a semi-annual perspective, 8,077 deals worth USD 1,492 billion were made in H1-17, an increase of 8.4% in terms of total deal value compared to H1-16 (USD 1,376 billion), in contrast to a significant decrease of 1,092 in deal volume compared to H1-16 (9,169). These trends are mainly driven by the increase of megadeals in the global M&A activity.

While North America is still leading the M&A activity in terms of total deal value, the increase of deal value from H1-16 to H1-17 is mainly driven by the rise of deal value in Europe, from USD 343 million to USD 482 million, respectively.



H1-17 Global M&A deals - top 5 sectors breakdown



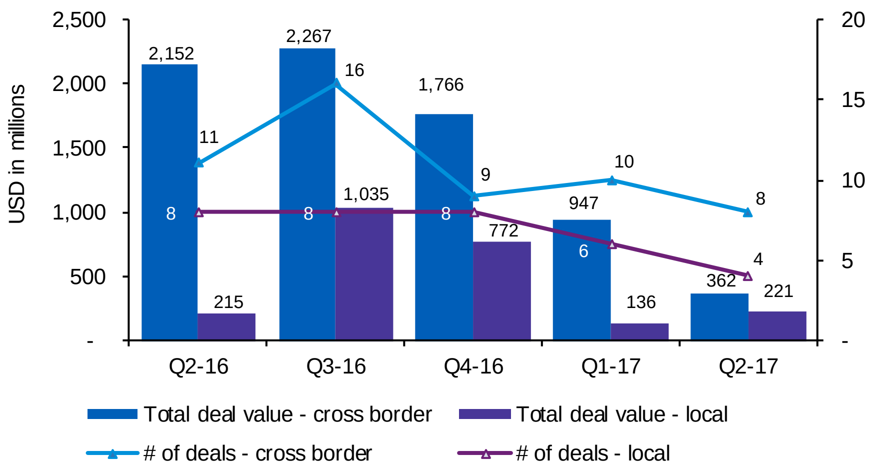
Source: MergerMarket Monthly M&A Insider – July 2017

Global M&A deals in H1-17 were led by Energy, Mining & Utilities with 662 deals worth USD 267.9 billion, representing 18% of total deal value in the period. The sector was mainly driven by a strong revival in bullish investor sentiment during Q1-17, thanks to rising commodity prices.

The Consumer sector came in second place in terms of total deal value, 894 deals worth USD 253.1 billion in H1-17, capturing 17% of total deal value in the period. The sector included 4 of the top 10 largest deals during H1-17, including the largest transaction in the period, the acquisition of the remaining 57.8% of Reynolds American by British American Tobacco's for USD 60.7 billion

The Israeli M&A landscape

Total M&A deal trend - Israeli targets



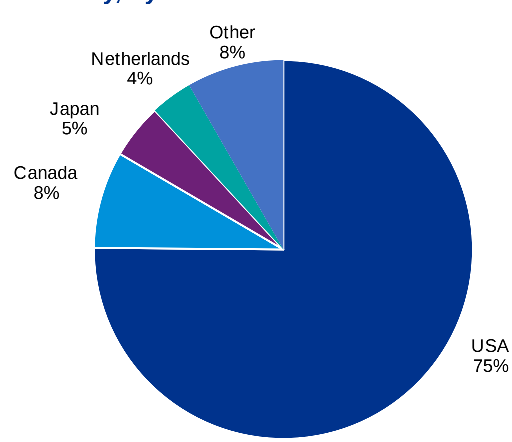
Source: Mergermarket deal reports
Note: (1) Cross-border deals defined as deals in which at least one of the bidder parties is not Israeli.
(2) Number of deals does not include deals with undisclosed value (23 deals completed between Q2-16 and Q2-17)

During Q2-17, M&A activity involving Israeli targets reached a total disclosed deal value of USD 583 million, a 75.4% decrease compared to Q2-16 and a 46.2% decrease compared to Q1-17. The decrease is mainly attributed to decline in the number of large transactions in the Israeli market. The largest transaction in the quarter amounted only to USD 150 million, while during Q2-16 and Q1-17, there were 4 and 2 transactions with value greater than USD 300 million, respectively.

Average deal size for cross border transactions decreased from USD 195.6 million in Q2-16 to USD 45.3 million in Q2-17, mainly due to lack of large transactions in this period. For local deals, average deal size increased from USD 26.9 million to USD 55.3 million between Q2-16 and Q2-17, mainly due to the acquisition of Pi Gliloth Petroleum Terminals and Pipelines by Canada-Israel for USD 103 million and the acquisition of Golan Telecom by Electra Consumer Products for USD 91 million.

The US led cross-border transactions, completed 5 deals with a total disclosed* value of USD 272 million, including the largest transaction of the quarter, the acquisition of Caesarea Medical Electronics Ltd by Becton Dickinson for USD 150 million.

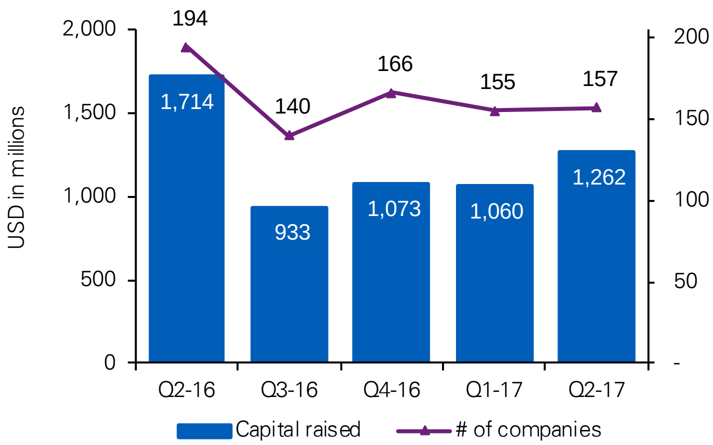
Distribution of Q2-17 cross-border transactions by bidder country, by value[1]



Source: Mergermarket deal reports
** Deal value was undisclosed for one US led cross border deal completed in Q2-17.*

M&A focus point: Israel's tech industry

Israeli high-tech capital raising



Source: IVC research center

During Q2-17, 157 Israeli-based high-tech companies raised a total of USD 1.262 billion, a 19.1% increase compared to Q1-17 and a 26.4% decrease compared to Q2-16. The average financing per company totaled USD 8.04 million, 17.5% higher than the Q1-17 average and 9.0% lower than the Q2-16 average.

In addition to the fund raising of Israeli-based high-tech companies, there were also a number of significant VC backed deals recently, including:

– Technion R&D Foundation and UG Capital announced the establishment of a new VC fund of USD 200 million, focused on science and technology investments related to the Technion and its alumni.

– Qumra Capital has raised USD 115 million for its second fund, focused on late stage companies that have moved beyond their research and development efforts.

– YL Ventures has raised a USD 75 million for their third fund, focused on early stages investments in Israeli software startups seeking to enter the U.S. market

Amir Shani, Principal at KPMG Somekh Chaikin's Deal Advisory, noted: "During the last weeks, several negotiations and investments of major global private equities in Israeli tech companies were published in the local press. The fact that some of the leading investors in the world, such as Goldman Sachs, Blackstone and EMK capital, invest in Israel's high tech industry is another indication of the success of the Israeli technology sector's growth. Now more than ever, Israel attracts foreign financial investors that are considering expanding through innovation and leveraging off of Israel's technological knowhow."

Deal spotlight

USD 56M

SeatGeek, a search engine and mobile-focused ticket marketplace for third-party sports, concerts, and theater tickets, acquired TopTix, an Israeli ticketing software company. Prior to the acquisition, the two companies worked together on the launch of "SeatGeek Open", a platform allowing sports teams and venues to sell tickets directly. The acquisition provides SeatGeek with the technology to support the quick development of this new platform. According to Jack Groetzinger, Cofounder of SeatGeek, the strategic merger makes for a particularly good match seeing as while SeatGeek has focused on building the best user experience for searching events and purchasing tickets, TopTix has the best backend ticketing technology creating the tools that allow venues to accept tickets.

USD 55M

Sky Fund and Kedma Capital, two Israeli private equity funds that focus on mid-sized investments have each acquired 35% of S.AL Group. The latter is a leading provider of pumping solutions for industrial market segments. The company operates through its subsidiaries that provide a vast array of plumbing solutions including sewage and drainage systems products, valves and taps; pumps; energy systems; heating equipment; firefighting equipment, swimming pool equipment and engineering support and technical services.

USD 47M

Viola Growth, an Israeli based technology growth capital fund, which focuses on investments in global companies at expansion phase, was the lead investor in SimilarWeb's raise round for a total of USD 47 million. Saban ventures and CE ventures also participated in the round. SimilarWeb's CEO, Or Offer, said the company intends to use the investment as a means to expand to global markets and build new technology, particularly by expanding the company's team worldwide and opening new offices, building next generation solutions, establishing consulting services and extending its lead as the highest quality and most comprehensive source of digital market intelligence across platforms.

Agri-tech industry spotlight

Background

As population growth increases with an estimation of an extra 2 to 3 billion mouths to feed by 2050 and climate change undermining crop production is of paramount importance, the need to ramp up food production and the odds of preventing a food crisis in time look bleak. In addition, with the world's population becoming increasingly urban, farms will likely experience labor shortages. Tech startups are preparing for the inevitable by developing a range of agricultural software, services, and farming techniques, aimed at increasing efficiency in the sector.[1]

Israeli market

Agri-tech is a wide sector and can be divided into semi-sectors including next generation farming, animal data, smart irrigation, farm management software, precision agriculture and predictive analytics, marketplaces, robotics and drones and sensors. [2]

Israel is a leader among Agri-tech based companies and startups. As evidence, Mexichem, one of the largest chemical and petrochemical companies in the world, recently announced the acquisition of 80% stake in Netafim, an Israeli pioneer of drip and micro-irrigation solutions, for USD 1.5 billion (reflecting total value of USD 1.9 billion). In addition, more than 400 Israeli Agri-tech startups working on innovative solutions for the global agriculture sector[3], including:

– CropX: In the sensors sector, CropX provides software systems for advanced adaptive irrigation by strategically placing sensors in the fields according to a GPS-enabled smartphone application synched to the phone in order to transmit data updates on soil conditions.

Israeli market (cont.)

– Tevatronic: Also in the sensors sector, Tevatronic's software collect precise data from each zone of the farm and specifically measures each plant's stress level to determine when to start and stop irrigation.

– Taranis: In the predictive analytics sector, Taranis uses deep learning on proprietary data sets that includes sub-mm aerial imagery, field sensors, satellite imagery, weather forecast and data from its field scouting application to predict and prevent crop disease and pest losses.

– Prospera: In the predictive analytics sector, Prospera's systems are installed in greenhouses or in fields, and use a proximal RGB camera and cloud-based software to gather and analyze data by applying machine learning, to report when something is happening in the field.[3,4]

What the future holds?

"If agriculture is to continue to feed the world, it needs to become more like manufacturing. Fortunately, that is already beginning to happen" says Geoffrey Carr, science and tech editor of "The Economist" [5].

In the short run, the improvements in the agriculture industry will boost farmers' profits, by cutting costs and increasing yields, and should also benefit consumers in the form of lower prices.

In the longer run, they may help provide the answer to an increasingly urgent question: how can the world be fed in the future without putting irreparable strain on the Earth's soils and oceans? The population in 2050 will not only need to eat, it will want to eat better than people do now.

[1] www.techcrunch.com
[2] www.cbi-biog.s3.amazon.com
[3] www.agfundernews.com
[4] www.israel21c.org
[5] www.economist.com

Report methodology

Mergermarket Monthly M&A Insider – July 2017 and deal reports

- *Deals are included where the deal value is greater than or equal to US$5m.*
- *Where no deal value has been disclosed, deals are included if the turnover of the target is greater than or equal to US$10m.*
- *Deals are included in the graphs and Top Deals in each section based on the dominant geography and dominant sector of the target company.*
- *Data underlying the League Tables are based on deals where the bidder, target or parent geography of either is that of the geography in focus.*
- *Mid-market is defined as US$10m - US$250m.*
- *All data included is correct as of June 30, 2017.*
- *For a full version of the Mergermarket M&A deal database inclusion and league table criteria, can be found here.*

Disclosure on comparative figures

Note that the statistics provided in Mergermarket and IVC with respect to previous quarters often changes as more information becomes available. As such, there are discrepancies at times between the figures of previous quarters disclosed in this report and figures disclosed in prior report.

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About KPMG Somekh Chaikin

KPMG Somekh Chaikin was founded in 1922 and currently has 51 partners with four branches throughout Israel.

Headed by Chairman Gad Somekh, Senior Partner Eran Shalev, and the management committee, the firm currently has over 1000 employees, and serves thousands of clients throughout the country.

The firm's clients in Israel include dozens of leading companies, constituting the backbone of the Israeli economy in many sectors. These clients benefit from professional and reliable service of some of the highest international standards. The firm's partners and employees support clients in direct and long-term relationships.

The firm's employees include experienced accountants, economists, lawyers and analysts, who are outstanding graduates of leading universities in Israel and overseas. Some are also members of the teaching faculty at these institutions. These employees constitute the firm's principal asset.

KPMG Somekh Chaikin strives to maintain long-term client relations by providing professional and reliable services, in accordance with high international standards.