

Quarterly review

Q3-16 M&A activity in Israel

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Summary of findings

- Global M&A activity reached a total value of USD 814.4 billion in Q3-16 (a 14.9% decrease compared to Q3-15, and a 9.0% increase compared to Q2-16).
- During Q3-16, M&A transactions involving Israeli Targets reached a total deal value of USD 1,551 million, a 7% increase compared to Q3-15, and an increase of 27% compared to Q2-16.
- Average deal size decreased from USD 152 million in Q2-16 to USD 75 million in Q3-16 for cross-border Israeli-target deals, and increased from USD 31 million to USD 175 million for local deals during the same period.
- The US led the cross-border transactions in the Israeli market, completing 6 deals with a total disclosed deal value of USD 313 million (46% of total disclosed cross-border transaction).
- During Q3-16, 142 Israeli-based high-tech companies raised a total USD 1.19 billion. The average financing per company totaled USD 8.4 million, approx. 5% lower than the Q2-16 average and 31% higher than the Q3-15 average.

The global setting

The global setting



The Israeli M&A landscape



M&A focus point – Israel’s tech industry



Sector spotlight



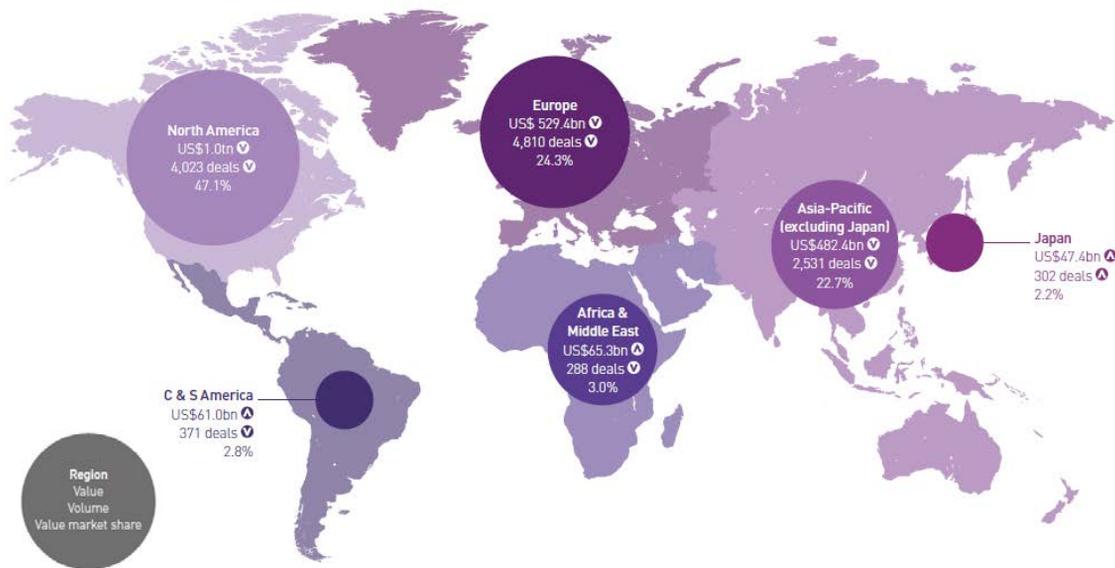
Deal spotlight



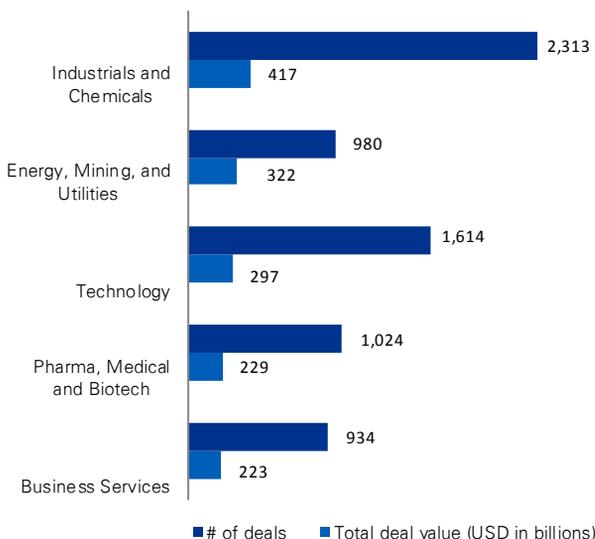
Report methodology

Global M&A activity in Q3-16 was slightly improved compared to Q2-16, with deals totaling approx. USD 814.4 billion (a 9.0% increase compared to Q2-16, and a 14.9% decrease compared to Q3-15).

From a year to date perspective, global M&A activity in YTD Sep-16 reached a total deal value of USD 2,201.4 billion (a 20.1% decrease compared to YTD Sep-15), with a similar decrease in deal volume, as the number of transactions totaled 12,286 compared to 13,263 in YTD Sep-15.



YTD Sep-16 Global M&A deals - top 5 sectors breakdown



Source: MergerMarket Monthly M&A Insider – October 2016

Global M&A deals were led by the Industrials and Chemicals sector, which captured 18.9% of YTD Sep-16’s total deal value, reflecting an increase of 41% in terms of deal value compared to YTD-15. The increase is mainly associated with two of the largest transactions during the period: The acquisitions of Monsanto Company by Bayer AG for USD 65.3 billion (Q3-16) and Syngenta AG by China National Chemical Corporation for USD 45.9 billion (Q1-16). The two deals represent a combined share of 5% of total deal value recorded in YTD Sep-16.

The Energy, Mining and Utilities sector came in second place in terms of total deal value, led by the acquisition of Spectra Energy Corp by Enbridge for USD 40.7 billion (Q3-16).

The Israeli M&A landscape

The global setting



The Israeli M&A landscape



M&A focus point – Israel’s tech industry



Sector spotlight

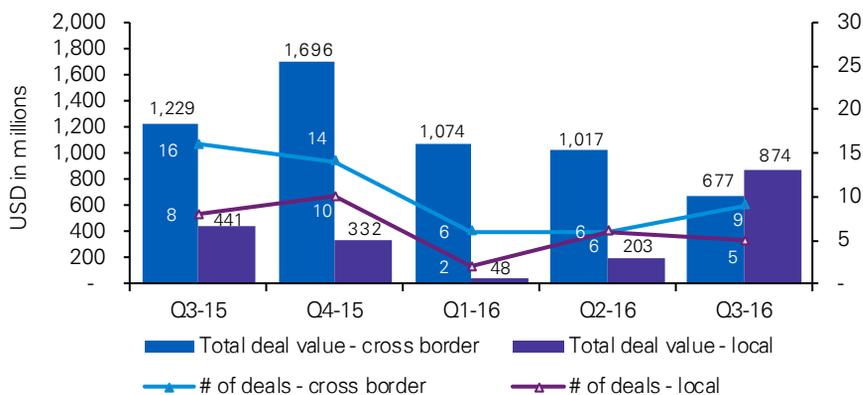


Deal spotlight



Report methodology

Total M&A deal trend - Israeli targets



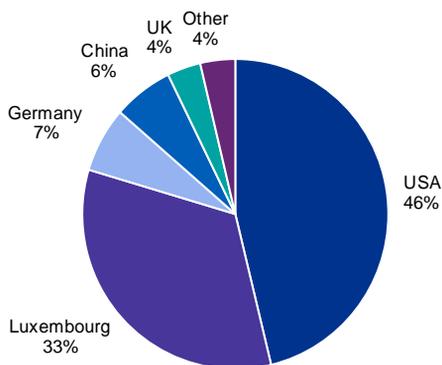
Source: Mergermarket deal reports
 Note: (1) Cross-border deals defined as deals in which at least one of the bidder parties is not Israeli.
 (2) Deal value undisclosed for 23 deals completed between Q3-15 and Q3-16.

During Q3-16, M&A activity involving Israeli targets reached a total disclosed deal value of USD 1,551 million (for completed deals). The increase in local deals’ total value in Q3-16 is mainly attributed to the USD 741 million acquisition of Alon Holdings Blue Square by a private investor.

Average deal size for cross boarder transactions decreased from USD 152 million in Q2-16 to USD 75 million in Q3-16, and increased from USD 31 million to USD 175 million for local deals during the same period.

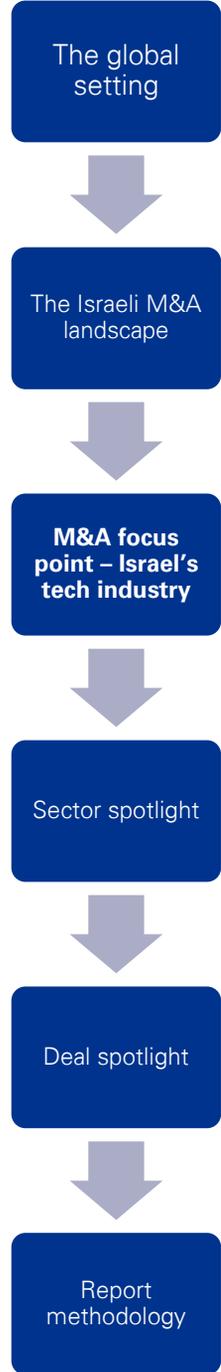
The US led cross-border transactions, completing 6 deals with a total disclosed* value of USD 313 million, including the USD 293 million acquisition of CloudLock, a cloud cybersecurity platform, by Cisco. Luxemburg ranked second, due to the USD 226 million acquisition of RR Media, a provider of digital media services, by SES S.A.

Distribution of Q3-16 cross-border transactions by bidder country, by value*

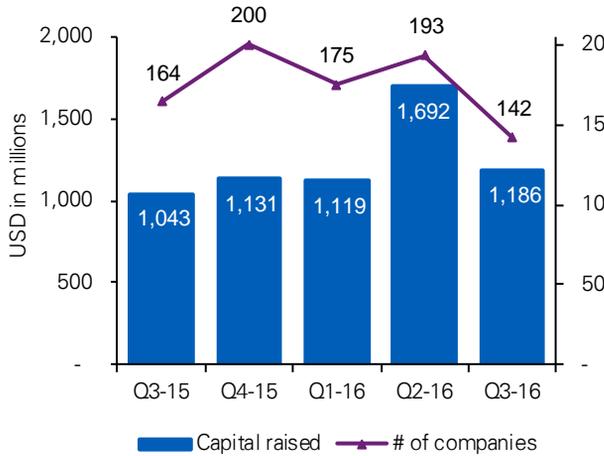


Source: Mergermarket deal reports
 * Note: Deal value undisclosed for 6 cross border deals completed in Q3-16 (4 of them with bidders from the US)

M&A focus point: Israel's tech industry



Israeli high-tech capital raising



Source: IVC and KPMG Q3-16 high-tech capital raising report



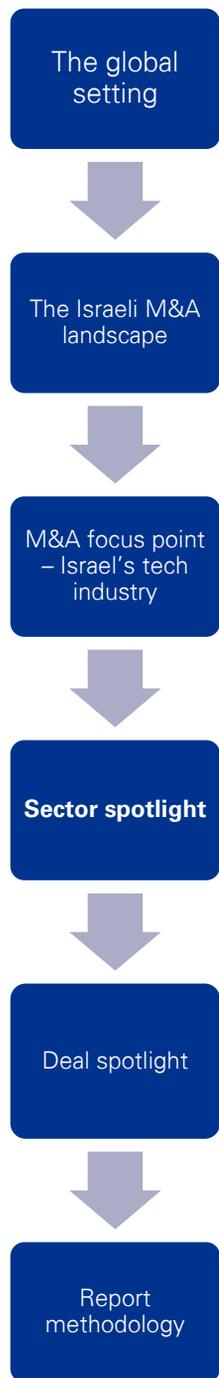
During Q3-16, 142 Israeli-based high-tech companies raised a total of USD 1,186 million, the second highest amount raised per quarter in 10 years. The average financing per company totaled USD 8.4 million, approx. 5% lower than the Q2-16 average and 31% higher than the Q3-15 average.

From a year-to-date perspective, Israeli high-tech companies raised a total of USD 3,997 million in 510 deals, a 27% increase in terms of deal value compared to the same period in the previous year.

In Q3-16, VC-backed deals amounted to USD 662 million invested in 75 companies (55.6% of total capital), of which USD 130 million (10.9% of total capital) was raised from Israeli VC funds. The total value of VC-backed deals was 41% lower in Q3-16 than in Q2-16 (\$1.1 billion raised in 119 VC-backed deals). The number of VC-backed deals decreased to a 3-year low in Q3-16, attributable mostly to a global downturn in VC activity and a shift to investments in later stage companies.

Koby Simana, CEO of IVC Research Center, notes that IVC has noticed a drop in foreign investor participation in Israeli technology capital raising. The drop in investment is explained by the global downtrend in VC backed investments and funding. It should be noted that despite the recent decrease, according to IVC 2016 is still expected to be a record year for VC backed funding in Israel in terms of capital raising.

Ofer Sela, partner in KPMG Somekh Chaikin's Technology practice, notes that the decline in the number of investments will not impact the ecosystem dramatically, as he expects the IPO market in the US to become stronger at the beginning of 2017, as well as continuance of high-quality deals flow. These will help to keep a vibrant and healthy ecosystem in the high tech industry.



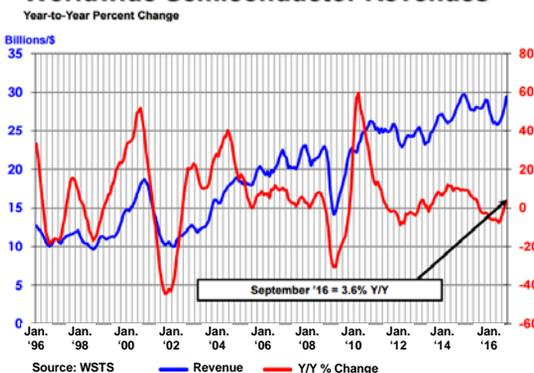
Background

Semiconductors are a key element in the manufacture of most processors used in any electronic device. Therefore, the demand for semiconductors derives directly from the demand for electronic devices such as computers and smartphones. When companies like Intel and Toshiba are faced with high user demand for their products, they cannot produce microchips quickly enough, and the semiconductor industry thrives¹. On the other hand, when product sales are low, the leading corporations continue to dominate the market while smaller companies may suffer massive hits.

Industry growth and expectations

The world's growing demand for electronic products, especially smartphones, is predicted to continue to be the driver for the growth of the semiconductor industry. The number of smartphone users increased from 2.6 billion to 3.9 billion between 2015 and today, and is expected to reach 6.8 billion by 2022². Such growth is mainly attributed to developing markets³. The growth in smartphone demand can provide an explanation for the semiconductor industry's successful third quarter in 2016. Worldwide sales of semiconductors reached \$88.3 billion in Q3-16, marking the industry's highest-ever quarterly sales and an increase of 11.5% compared to Q2-16⁴, creating an optimistic prediction of the future.

Worldwide Semiconductor Revenues



Israeli market

Israel is a worldwide leading force in the semiconductor industry. Recent studies show that up to 80% of the processors in the world contain Israeli developed electronic components⁵. In 1964, Motorola became the first multinational company to establish a semiconductor facility in Israel. Intel, which currently employs 7,300 employees in Israel, has been present in Israel since 1974 and its first semiconductor R&D plant was opened in 1985⁶. "We've exported goods worth \$35 billion, most from our production centers in Kiryat Gat and Jerusalem," said Intel VP and Intel Israel CEO Maxine Fassberg⁷.

Israeli M&A

In 2016, several major transactions were carried out in the Israeli semiconductors industry, in a total amount of approx. USD 1.3 billion. The largest deal was the USD 811 million acquisition of EZchip by Mellanox Technologies. The transaction is relatively unique as it involved two Israeli companies rather than a major multinational player acquiring or investing in a smaller Israeli semiconductor company.

Other 2016 semiconductor-industry deals that involved Israeli targets include the following:

- The USD 320 million acquisition of Leaba Semiconductor by Cisco.
- The USD 212 million acquisition of Altair Semiconductor by Sony.
- Semtech invested USD 17 million in MultiPhy.

The local industry continues to receive worldwide respect, particularly from the largest companies' most senior executives. In 2016, five years after apple established in Israel its first R&D center outside California, focusing mainly on semiconductors, senior VP of Hardware Technologies at Apple, Johny Srouji explained "Our Israeli engineering team has a key role in our technological achievements thus far, and it helps us to create the future."⁸ The M&A landscape of the Israeli semiconductor market is yet another sign of the field's bright future.

1 <http://www.investopedia.com>
 2 www.ericsson.com
 3 <https://techcrunch.com>
 4 <http://www.semiconductors.org>

5 <http://marvellisrael.co.il>
 6 <http://www.economy.gov.il/>
 7 <https://www.computer.org>
 8 <http://news.techtime.co.il>

The global setting



USD 516M*

The Israeli M&A landscape



M&A focus point – Israel’s tech industry



USD 369M**



Sector spotlight

Tamar Gas Field

Deal spotlight



USD 20M

Report methodology



Yango Investment PTE. Ltd., a unit of Chinese holding company Fujian Yango Group Co. Ltd., has acquired a 52.3% holding in the insurance group The Phoenix Holdings Ltd.(TASE: PHOE1;PHOE5), one of the five largest insurance groups in Israel, from Delek Group Ltd. Delek is selling control of Phoenix as part of its efforts to shed its financial businesses and focus on its energy business. The deal awaits regulatory approval.

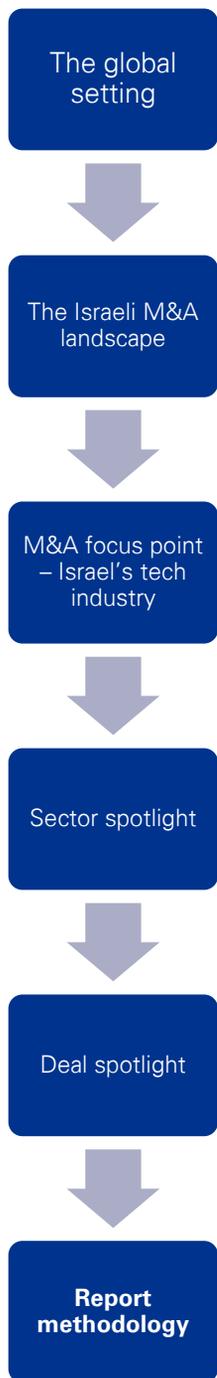
Harel Insurance Investments and Financial Services Ltd. (TASE: HARL), and Israel Infrastructure Fund (IIF), which is partly owned by Harel, have acquired 3% of the rights in the Tamar natural gas reserve from Noble Energy (NYSE: NBL). Harel’s participation in the deal will be 62%, and IIF’s will be 38%. The partnership was also granted an option, valid until the deal’s completion date, to buy an additional 1% for \$123 million. Noble Energy is required to reduce its stake in the Tamar gas field from 36% to 25%, within 6 years, due to the stake it also holds in the Leviathan natural gas field, and in accordance with Israeli regulations.

Israel Growth Partners (IGP), a private equity investment firm that focuses on later stage investments, invested \$20 million in Optimove, a company that develops and markets Software as a Service (SaaS) based products, for the automation of personalized customer retention marketing. According to local press, the deal reflects a \$80 – \$100 million company value. This financing round marks the company’s first funding, after 3 straight years of 100% year-over-year growth.

* The deal reflects a \$986 million value for The Phoenix .

** The deal reflects a \$12.3 billion value for Tamar.

Note: The aforementioned deals were announced publically



Mergermarket Monthly M&A Insider – October 2016 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.
- YTD-16 refers to the period 01-Jan-16 to 29-Sep-16, YTD-15 refers to the period 01-Jan-15 to 29-Sep-15.
- For a full version of the Mergermarket M&A deal database inclusion and league table criteria, can be found [here](#).

IVC and KPMG Q3-16 high-tech capital raising report

- The survey reviews capital raised by Israeli high-tech companies from Israeli and foreign venture capital funds as well as other investors, such as investment companies, corporate investors, incubators and angels.
- The survey is based on reports from 317 investors of which 38 were Israeli VC management companies and 279 were other entities
- The survey covered total investment in the Israeli venture capital sector, including both VC-backed rounds where at least one investor participating in the round was a VC fund, as well as deals not backed by venture capital funds.
- For more information on the IVC survey methodology click [here](#), or visit www.ivc-online.com.

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.



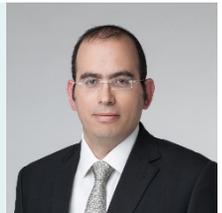
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About KPMG Somekh Chaikin

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.

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