A year in review

2016 M&A activity in Israel

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Summary of findings

- Global M&A activity reached a total value of USD 3,240 billion in 2016, an 18% decrease compared to 2015 (USD 3,956 billion).
- M&A transactions involving Israeli Targets reached a total deal value of USD 5,664 million, a 46% decrease compared to 2015, mainly due to a decline in the number of cross border deals.
- Average deal size for cross border transactions increased from USD 128 million in 2015 to USD 138 million in 2016, and increased from USD 57 million to USD 97 million for local deals during the same period.
- The US led the cross-border transactions in the Israeli market, completing 25 deals with a total disclosed deal value of USD 3,012 million (68% of total disclosed cross-border transaction).
- Israeli high-tech capital raising activity set a new record in 2016, with 659 Israeli-based high-tech companies raising a total of USD 4,775 million. The average financing per company also reached a new high, at an average of approx. USD 7.2 million, 19% higher than the 2015 average.

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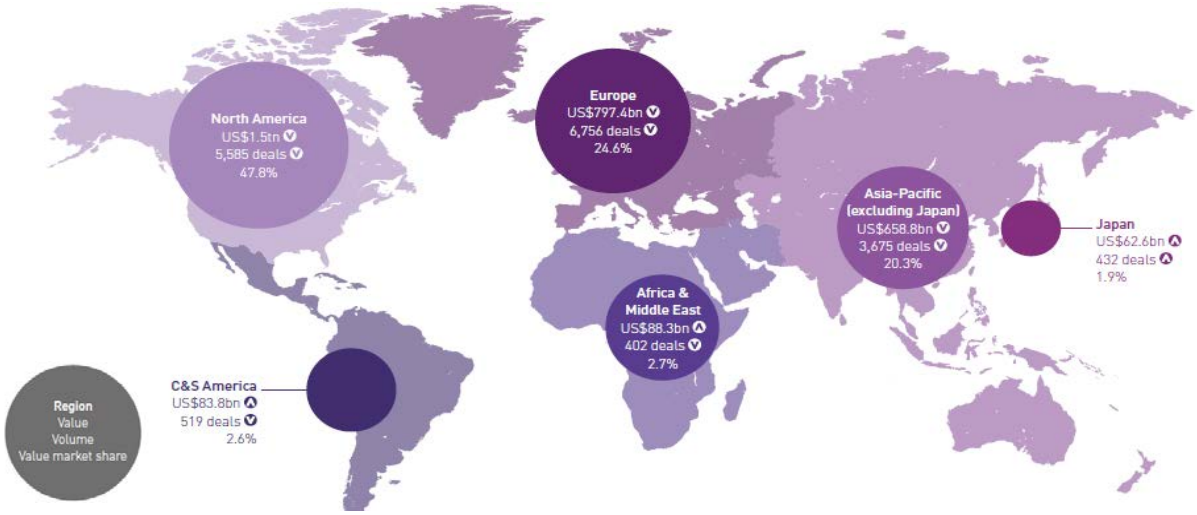
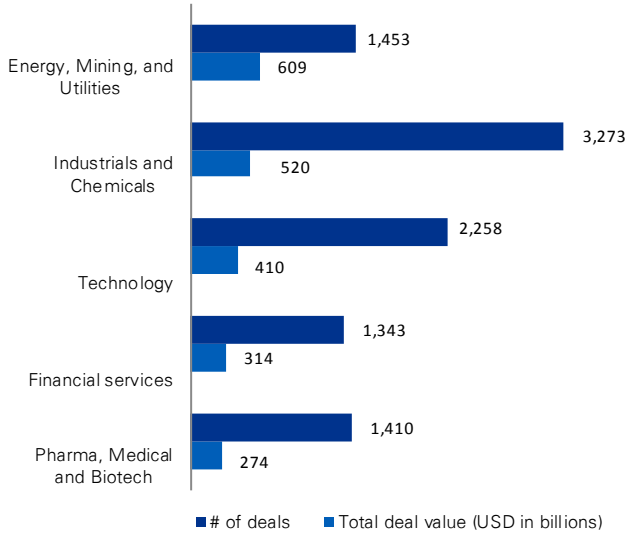
The global setting

Global M&A activity in 2016 reached a total value of USD 3,240 billion, an 18% decrease compared to 2015 (USD 3,956 billion). In terms of volume,17,369 deals were completed during 2016, a decrease of 3.8% compared to 2015 (18,039 deals).

The decrease in total global value is mainly attributed to North America, which contributed USD 1,549 billion in 2016 compared to USD 2,079 billion in 2015. Nevertheless, North America maintained its dominance, representing 47.8% of total global deal value. Europe led in terms of number of deals, with 6,756 deals completed.



2016 Global M&A deals - top 5 sectors breakdown



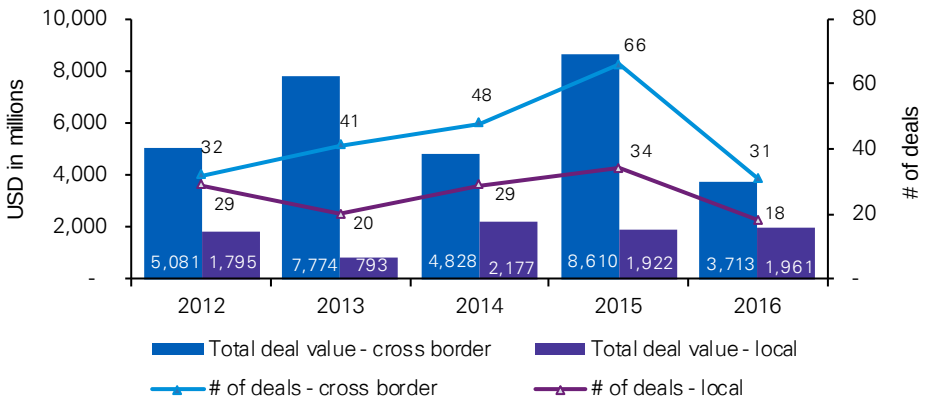
Source: MergerMarket Monthly M&A Insider – January 2017

The energy, mining and utilities sector was the top sector in 2016 in terms of deal value (maintaining this position since 2014), capturing 18.8% of total deal value in 2016. The sector was driven by a large number of megadeals, with 11 transactions worth more than USD 10 billion, including 3 of the 10 largest transactions of the year.

The industrials and chemicals sector came in second place in terms of deal value, mainly driven by a large number of deals in this sector, including two of the largest transactions of the year: the USD 51.4 billion acquisition of Energy Transfer Partners by Sunoco Logistics Partners, and the USD 45.9 billion acquisition of Syngenta AG by China National Chemical Corporation.

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 (81 deals completed between FY12 and FY16)

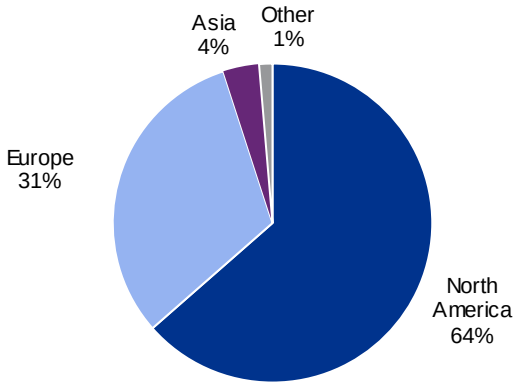
M&A activity involving Israeli targets reached a total disclosed deal value of USD 5,664 million, a 46% decrease compared to 2015. The decline is mainly attributed to Chinese and Canadian investors, which contributed a value of approx. USD 3,194 million in 2015 (approx. USD 3,000 million related to two transactions), compared to only USD 75 million in 2016. In addition, the number of transactions with a value greater than USD 100 million decreased from 18 to 8 deals between 2015 and 2016.

While the number of local deals decreased significantly between 2015 and 2016, the total value of local deals remained stable, mainly as a result of the USD 741 million acquisition of Alon Holdings Blue Square by a private investor, and the USD 668 million acquisition of EzChip Semiconductor by Mellanox Technologies, which made up for the reduced deal value in the period.

Average deal size for cross border transactions decreased from USD 130 million in 2015 to USD 120 million in 2016, and increased from USD 57 million to USD 109 million for local deals during the same period.

North America led cross-border transactions, completing 25 deals with a total disclosed* value of USD 2,359 million, including 13 acquisitions of computers software or semiconductors companies in a total amount of USD 1,902 million. Europe ranked second having the largest transaction of the year- the USD 837 million acquisition of a 36% stake in Osem Investment, by Nestle.

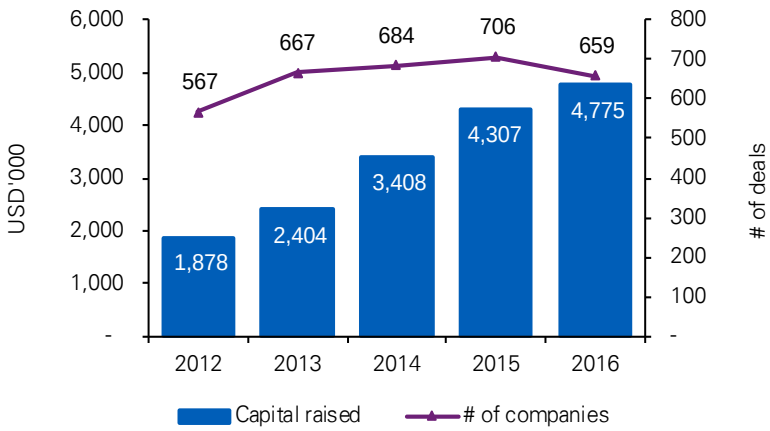
Distribution of 2016 cross-bordertransactions by bidder country, by value[1]



Source: Mergermarket deal reports
** Note: Deal value undisclosed for 18 cross border deals completed in Q3-16 (8 of them with bidders from North America)*

M&A focus point: Israel's tech industry

Israeli high-tech capital raising



Source: IVC research center

Israeli high-tech capital raising activity set a new record in 2016, with 659 Israeli-based high-tech companies raising a total of USD 4,775 million, reflecting an 11% increase compared to 2015. Israeli high-tech capital raising displayed a 26% CAGR over the last 4 years. The average financing per company also reached a new high, at an average of approx. USD 7.2 million, 19% higher than the 2015 average.

The significant increase in the average financing marks the new trend of later stage investments in the Israeli high-tech field. In the past, Israeli startups mostly raised seed and A-round funding, and looked for a quick acquisition by a larger tech corporation. Nowadays, startups are focusing on building the value of the company over a longer period, aiming for a massive exit or IPO. The change mainly derives from the confidence of Israeli entrepreneurs in the efficiency of their technology and their chances of success, as well as the confidence of local and international investors in backing Israel's startups for the long term[1].

Ofer Sela, Partner at KPMG Somekh Chaikin's Technology group noted: "While we observe a decline in the number of investments, we don't believe that the local ecosystem is going to be dramatically impacted by the global downtrend in the long run, since the flow of quality deals continues to be strong and new growth investors are investing in these deals, providing a wider horizon to such companies, both in terms of the type of potential exit and valuation". Sela added: "We expect the IPO market in the US to be much stronger at the beginning of 2017, which will keep pushing both investors and VC-backed companies to continue to nourish the local ecosystem, alongside more traditional industries that are looking to reinvent themselves through innovative solutions".

[1]www.venturebeat.com

Deal spotlight

USD 75M

Avery Dennison Corporation Ltd., a global leader in labeling and packaging materials and solutions, has acquired Hanita Coatings RCA Ltd, a company which specializes in the development and conversion of coated, laminated and metallized films for a range of industrial and commercial applications. Mitch Butier, Avery's President and CEO, noted that he sees clear opportunities to leverage Avery's global organization brand in order to accelerate Hanita's product commercialization around the world, in addition to expanding Avery's product portfolio and providing new growth opportunities.

USD 375M

Dentsply Sirona, an American designer, developer, manufacturer and marketer of various consumable dental products, has acquired MIS Implants Technologies, which engages in the development and production of products and solutions for implant dentistry. MIS was founded in 1995 and is based in Shlomi, Israel. In 2011 MIS raised an investment at a company value of $150 million from the private TA Fund. According to Jeffery T. Slovin, Dentsply's CEO, MIS has a broad portfolio of implants and related products under a well-established brand, making it a great complement to Dentsply.

USD 837M*

Nestle SA, the largest food company in the world according to Forbes, has acquired a 36% stake in Osem Investments, Israel's largest publicly-traded foodmaker. In 1996, Nestle performed its first acquisition of a stake in Osem (10%), and as of 2000 had obtained control in the company with a 50.1% stake. Prior to this acquisition, Nestle had a 64% stake in Osem, and currently holds 100% of the stake in Osem. According to Dan Proper, Osem's former chairman of board, Nestle acquired Osem in order to take the company private due to heavy regulation in the country, specifically in relation to transactions with party of interest.

** Total valuation of Osem is USD 2,305 million.*

2017 M&A outlook

Global M&A activity in 2016 showed an 18% decrease in deal value compared to 2015. Consequently, Israeli M&A landscape is consistent with the global market trend, presenting a 46% decrease in total deal value in 2016 compared to 2015, mainly due to a decline in cross border investments. What can be expected for Israeli M&A activity in 2016, especially that involving foreign investors?

The majority of investments in Israel are made by companies from western countries, mainly from the US. These countries' economies have a large influence on the M&A field in Israel. President Donald Trump winning the US election and taking office on January 20, 2017 places a big question mark on what will happen to the markets in 2017. Also, recent political developments highlight a fraying consensus about the benefits of cross-border economic integration. There is concern that increased restrictions on global trade and migration would hurt productivity and incomes, and take an immediate toll on market sentiment[1]. As for Israel, it is possible that the appointment of ambassador David Friedman is a sign of warming relations with Uncle Sam leading to an increase of American investments in Israel, especially in national security assistance and also by embracing Israel as a technological development center. On the other hand, Trump's trade-related declarations may also lead the US investors to avoid global investments and investing solely in the US market.

Another global effect on the Israeli M&A market is new regulation in China. During the last years, Chinese companies and investors have carried out some of the most massive investments, including the acquisition of Tnuva Holdings and the potential acquisition of The Phoenix Insurance Company. However, the Chinese government has adopted a more stringent regulation regarding cross-border capital flows since H2-16. In addition, the Chinese government is considering to prohibit certain significant investments outside of China, and requiring a government pre-approval of any international investment higher than USD 5 million[2].

Meanwhile, Israeli regulation is expected to affect the Israeli M&A landscape. The implementation of the Strum Committee and the Competitiveness Committee recommendations are expected to force M&A activity and to attract new investors. In addition, as of July 3, 2016 the Israeli government has approved the conversion of the Tel Aviv Stock Exchange (TASE) from a non-profit organization to a limited company. The main goal of the restructuring is to turn the TASE into a more efficient and competitive force in the market that can present a significant alternative to international markets, stock exchanges and trading arenas.

Similar to the global markets, that were affected by various events such as Brexit and the political and economic changes in the US, the Israeli M&A activity presented a significant decrease. However, the stabilization of the global uncertainty, the continuous local low interest rate policy and regulation may give a positive outlook for the Israeli M&A activity in the year to come.

[1] www.imf.org
[2] www.globes.co.il

Report methodology

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.*
- *2016 refers to the period 01-Jan-16 to 31-Dec-16, 2015 refers to the period 01-Jan-15 to 31-Dec-15.*
- *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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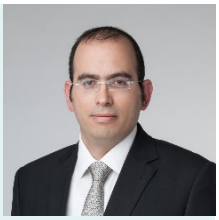

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About KPMG Somekh Chaikin

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.