

Overview

HERZOG FOX & NEEMAN

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LAW OFFICE

Israeli Investment Environment

Israel is a small country in a region facing continued geopolitical uncertainty. You might expect that investing in Israel would be an irrational business decision. Nevertheless, this could not be further from the truth, as the country constantly punches above its weight and is widely considered a prime destination for a broad range of investors. A strong combination of innovation and entrepreneurial drive continue to attract to Israel the world's leading technological companies, venture funds, private equity funds and, more recently "crowd funding" investors, all of whom are looking for the idea, the development, the product that is ahead of the field, either for strategic reasons or simply for a financial return.

A diverse and ambitious commercial atmosphere employs highly qualified business professionals in all types of transactions. The courts are well-regarded and impartial. With the added ingredient of a highly educated and skilled workforce, it is no surprise that Israel attracts substantial foreign investment from all corners of the world.

The wave of foreign acquisitions has continued over the last year.

Despite its size Israel is a technological giant. Microsoft, Apple, Facebook and Google are among the household names who have invested in Israel, and continue to do so, highlighting Israel as a focal point of technological development. They are not alone. Over 280 multinational companies operate R&D centres in Israel, including the largest technology companies in the world.

The wave of foreign acquisitions has continued over the last year. Towards the end of 2015, the XIO Group purchased Lumenis, a developer of non-invasive medical devices, for US\$510 million. In 2016, Cisco spent US\$320 million on Leaba, a chip-design start-up, and US\$293 million on CloudLock, a developer of security technologies for the enterprise cloud; Sony acquired chip developer Altair for US\$212 million; Oracle bought cloud computing specialist Ravello for US\$500 million, followed by the acquisition of advertising start-up Crosswise; Intel acquired Replay Technologies, a 3D video start-up, for US\$175 million; and Dentsply Sirona acquired MIS, a dental implant systems manufacturer, for US\$375 million.

A number of Israeli companies have completed high profile public listings. At the same time we are witnessing the expansion of smaller domestic technology companies

growing through their own local acquisitions in Israel. The fact that Israeli companies are looking to grow through local acquisitions shows that not all high-tech entrepreneurs are looking for an early "exit", and reflects a greater maturity and confidence in the Israeli high-tech sector. This is undoubtedly helped by the growing ability of the more mature Israeli hi-tech companies to raise capital both privately and in public markets.

Some of the world's largest private equity funds are looking closely at Israel for opportunities. As a general rule, these funds are looking for more mature companies, with proven revenue history and especially with export sales. There are numerous such opportunities in Israel of companies still controlled by the founding shareholders or by the second generation, or owned by Kibbutzim.

Notable private equity transactions over the last year include the acquisition of an 80% stake in Keter Group, a resin consumer products provider, by leading global private equity fund BC Partners, and Public Sector Pension Investment Board of Canada, in a transaction valuing Keter at approximately US\$1.6 billion. Francisco Partners acquired ClickSoftware for US\$438 million, and Siris Capital Group acquired Xura Inc. (formerly Comverse, one of Israel's early technology success stories) for US\$643 million.

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Investment from Asia, in particular China, Korea and Japan, is changing the makeup of foreign investment in Israel across a wide spectrum of activity, from traditional industry to the financial sector to technology.

The Law for Promotion of Competition and Reduction of Concentration continues to cast a shadow over some of Israel's largest corporate groups. As its name indicates, the Law was introduced in order to promote competition in the over-concentrated Israeli economy. At the end of an initial transition period, it will no longer be permitted for a single investment group to own both a substantial financial enterprise and a substantial non-financial enterprise. As a result, a number of major financial enterprises (banks and insurance companies) and industrial concerns will inevitably be sold off in the coming years. That said however, it has proved a challenging exercise to find a buyer, in particular for Israel's major insurance companies, all of which are "up for sale." The Director of Capital Markets, Insurance and Savings at the Ministry of Finance has yet to approve any of the potential buyers for Israel's large insurance companies.

One external factor which has led to the break-up of some of Israel's major conglomerates has been the implosion of some of the largest corporate groups under the burden of indebtedness owed to banks and to public bondholders.

When he came into office, Israel's new Finance Minister Moshe Kahlon faced a number of major economic challenges. A principal feature of the Minister's platform has been to introduce competition into Israel's banking sector. The banking sector is dominated by Israel's two largest banks, Bank Leumi and Bank Hapoalim. The Minister, together with the Bank of Israel, established a committee to recommend ways to increase competition in the banking and finance sector, especially for domestic and small business customers. The various factions on the Committee have been struggling to reach an agreed set of recommendations. Whatever the outcome, it seems clear that

the major banks of Israel will be forced to sell their profitable credit card operations, and the path will be made easier for new banks to enter the marketplace.

The saga of Israel's offshore gas monopoly is hopefully coming to an end. Prime Minister Netanyahu personally intervened and pushed through the "Gas Outline Agreement" with the consortia that own the major offshore gas discoveries, the Tamar and Leviathan fields (Noble Energy, the Delek Group and the Ratio Group). The Agreement will bring to an end the current monopoly by forcing the consortium members to sell part of their interests in the two fields, as well as settling issues relating to the export of gas from Israel and the terms on which the gas companies will sell their gas. It is inevitable that there will be significant investment activity relating to the offshore gas fields. Time will tell whether the investment will be from overseas or from local investors, and in particular institutional investors.

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A third issue still facing the Minister of Finance is to deal with the critical housing situation in Israel, especially for first-time buyers and lower income groups. Any solution to this problem will involve simplifying Israel's planning regulations, and the release by the Government of at least a portion of the large reserves of real estate held by the State.

While these challenges are being tackled head on, and despite the geopolitical environment, there are very many reasons for optimism for doing business in Israel. The country is at the heart of technological innovation and continues to offer international businesses attractive investment opportunities across a range of cutting-edge industries.



Herzog Fox & Neeman

Alan Sacks, Head of International Practice and Banking and Finance

Herzog Fox & Neeman is Israel's leading law firm and has earned the reputation of market leader with over 270 lawyers of whom more than 100 are partners. The firm has some of the brightest legal minds in the profession, possessing both intimate knowledge of local markets and a clear understanding of global business. HFN employs over 60 dual-qualified, foreign-born lawyers who have worked at leading firms in the U.S., the UK and Australia. In keeping with the firm's global perspective, the majority of HFN's business is conducted in English and lawyers work closely with leading firms in jurisdictions around the world.

As Israel's most innovative firm, HFN is called upon to lead prominent and influential transactions in every industry – resulting in unrivalled experience in cross-border and domestic transactions. HFN has over 50 departments and specialist sectors, more than any other law firm in Israel, which serve our clients' needs and deliver comprehensive results. HFN's clients are a diverse group operating across a broad spectrum of industries, ranging from small domestic businesses to multinational corporations with operations in Israel. A sampling of clients includes: private and publicly-traded industrial and commercial companies, venture capital and investment funds, financial institutions including local and foreign banks, High-Tech companies, government companies and entities, academic institutions and private individuals. Moreover, HFN is the first Israeli law firm to establish a Silicon Valley Representative Office, increasing our role in the tech community.

HFN's commitment to excellence is reflected in its prominent status in all major international and domestic publications. The firm has received top-tier rankings for consecutive years in almost all major practice areas in leading directories including: The European Legal 500, Chambers Global, IFLR 1000, BDI and Dun and Bradstreet. HFN is the mostly highly ranked amongst all Israeli law firms, and was selected as Israeli Law Firm of the Year by the Financial Times and Mergermarket, IFLR, Who's Who Legal and others.

Alan Sacks heads HFN's International Practice and Banking and Finance department. Alan arrived in Israel shortly after having qualified as a Solicitor in England, and since then has divided his practice between two main areas of corporate law and banking and finance.

In the area of M&A, Alan has been responsible for some of the largest transactions in Israel, including having advised on the acquisition or sale of Israel's major banks, industrial holding companies and cellular telephone operators. Most recently, Alan advised the sellers of the world's largest online poker site in an international transaction worth close to US\$5 billion.

In the Banking and Finance sector, Alan's cross-border expertise, as well as his familiarity with all aspects of banking regulation, have made him the leading practitioner in the international banking arena on all aspects of banking activity.

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