

ISRAEL HIGH-TECH & INVESTMENT REPORT

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2019 Will Be A Good Year

2018 record year for M&As in Israel

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PwC said that 2018 had been a peak year for the Israeli economy, with the volume of deals rising 77% to \$21.6 billion (before completion of the Mazor Robotics deal), compared with \$12.2 billion in 2017 and \$16.8 billion in 2016. The report did not include exceptional deals of over \$15 billion, and therefore excluded the huge acquisitions of Mobileye by Intel and of Actavis by Teva Pharmaceutical Industries Ltd. (NYSE: TEVA; TASE: TEVA).

The average deal price rose 88% to \$267 million in 2018, but the number of deals dropped from 131 in 2017 to 124 in 2018. In addition to the increase in the conventional industries, the life sciences and pharma industry produced deals totaling \$1.3 billion, down from \$4.7 billion in 2017.

PwC Israel partner, head of advisory services, and transaction services leader Liat Enzel-Aviel

says, "It appears that the decline in the number of high-tech deals is due to continued development by companies in the sector and growth possibilities that are postponing the sale of companies. The fall in the figures for pharma deals resulted from a decline in mergers and acquisitions activity by Teva, which was active as a buyer of companies in 2016 and a seller of companies in 2017.

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"At the same time, companies sold this year had the potential to become flagship companies in the Israeli economy. The question arises of what this indicates about the economy, and whether there is a glass ceiling preventing these companies from developing into Israeli-owned global leaders."

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Uncertainty about 2019

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On the other hand, price fluctuations will be so extreme that that market is likely to reach a standstill, due to investors' desire to reduce their exposure," Enzel-Aviel says.

At the same time, she detects a change in the mood among local entrepreneurs, who are not pushing for a quick exit. Another factor is the effect of the US tax reform, which is causing signs of a slowdown in activity outside the US. The regulatory aspect is also influential - if an

extension for implementing the Promotion of Competition and Reduction of Concentration Law is not granted, it could potentially result in the sale of assets worth billions of dollars.

Kitov Pharmaceuticals soars on US distribution agreement

Kitov has signed an exclusive agreement with Coeptis Pharmaceuticals to commercialize its drug Consensi, designed to treat osteoarthritis pain and hypertension simultaneously.

Kitov Pharmaceuticals (TASE: KTOV; NasdaqCM: KTOV) has announced an exclusive marketing and distribution agreement with Coeptis Pharmaceuticals for the US market. Coeptis will commercialize Kitov's combination drug, Consensi, intended to treat osteoarthritis pain and hypertension simultaneously.

Kitov's share price added 70.54% today on the Tel Aviv Stock Exchange, bringing the company's market cap to some NIS 70 million. The stock is currently up 56% on Nasdaq.

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The agreement provides for total milestone payments from Copts to Kitov of \$3.5 million, of which Kitov has already received the initial milestone upon execution of the agreement, and additional milestone payments are due upon completion of an agreed Chemistry, Manufacturing, Control (CMC) plan and upon first commercial sales in the US.

In addition, Kitov will be paid 40%-60% of Coeptis' net profit on Consensi sales.

The agreement is for a term of fifteen years and may be extended for additional two-year terms and includes customary provisions, as well as certain residual rights and obligations of the parties following termination.

Consensi, under patent protection in the US until 2030, is expected to be launched during 2019, and will be the only NSAID whose labeling indicates a reduction of blood pressure and consequent risk reduction of heart attack, stroke and death. For patients, Consensi treats two conditions simultaneously, thereby increasing convenience (one pill instead of two) and may offer lower co-pays. The therapy may contribute to improved patient compliance and improved patient health, thereby lowering overall health care costs.

Kitov's CEO Isaac Israel said today, "In the US, an estimated 44% of adults have both hypertension and osteoarthritis. Currently, these patients are not well served. We believe that successful commercialization of Consensi in the US will be a transformational value-creating event for Kitov."

David Mehalick, CEO of Coeptis, said, "We anticipate launching Consensi in the second half of 2019 and expect to have it widely available to the millions of Americans who can benefit from this combination treatment."

Kitov was founded by its chairman, Paul Waymack, who realized that patients tend to take drugs for pain that raise their blood

pressure, while forgetting to take drugs to lower their blood pressure, the benefit of which is not immediately felt. He conceived the idea of remedying this by combining the two drugs in a single pill.

While this is not a pharmaceutical breakthrough, the development of such a product in such a way that it can contain both drugs without them interfering with each other is not simple.

The agreement with Coeptis is Kitov's third licensing and distribution agreement as part of its worldwide commercialization plans for Consensi. Kitty has previously signed licensing and distribution agreements for the drug in China and South Korea, and Kitov is currently evaluating additional commercialization agreements in major markets worldwide.

Delek sells 30% IDE stake for NIS 530m

The buyer Alfa Partners already has a 50% stake in IDE and manages the company's operations.

Delek Group Ltd. (TASE: DLEKG), controlled by Yitzhak Tshuva, notified the Tel Aviv Stock Exchange (TASE) this morning that it has signed an agreement to sell a 30% stake in desalination company IDE Technologies for NIS 530 million. The buyer Alfa Partners already has a 50% stake in IDE and manages the company's operations.

The deal reflects a company valuation of NIS 2 billion and payment will be part in cash and partly through a dividend distributed by IDE. The deal is due to be completed in the first half of 2019 and is subject to regulatory approval. After completion of the deal, Delek will retain a 20% stake in IDE."

Delek said, "Sale of Delek Group's holdings in IDE is an additional step in the Group's strategy to focus on domestic and international

energy in order to become a leading player in the international energy market."

PwC Israel: Number of exits down 33% in 2018

The average deal in 2018 was \$81 million, compared with \$106 million in 2017.

The annual report by PwC Israel shows that Israeli companies made 61 exits for a total of \$4.9 billion in 2018, compared with 70 exits totaling \$7.4 billion in 2017, a 33% drop in the volume of deals. The average deal in 2018 was \$81 million, compared with \$106 million in 2017.

These figures do not include the largest deals in Israeli high tech: Orbotech Ltd. (Nasdaq: ORBK) (sold for \$3 billion, but the deal was not finalized), Imperva (\$2.1 billion), Mazor Robotics (over \$1.5 billion) and NDS (\$1 billion), because these were not the first exits in these companies. The first three held IPOs and were public companies when they were acquired, while ownership of NDS changed again. Had the report included these deals, exits in 2018 would have reached \$13.5 billion, compared with \$23.8 billion in 2017. As in previous years, the report included only deals of \$5 million or more.

The largest group of exits, 39%, was in the \$10-50 million range. 26% of the deals were in the \$100-500 million range, 18% were in the \$50-100 million range, and 15% were in the \$5-10 million range.

PwC high-tech partner Yaron Weizenbluth attributed the decline in the number and volume of exits this year to the maturity of the high-tech industry and the development of the secondary market in the sector: "The secondary market has improved beyond all recognition. A lot of shares are changing hands above the good high-tech companies. The entire sector in which money passes

through hands without any need for stock exchange institutions has become far more sophisticated, and so we're seeing fewer sell-offs," he says. "The result is that there are fewer exits and at lower prices, while more and more companies are developing high values out of sight and waiting for a big exit. In the future, we'll see more exits at high values, but fewer exits in general."

Why are there no deal in the Internet sector?

From a long-term perspective, there is a clear trend towards instability in exit figures in recent years. There was a five-year downtrend in 2006-2010 in the number of deals, the size of the average deal, and the total annual value of exits, which fell from \$10 billion in 2006 to \$1.17 billion in 2010. This was followed by a four-year rising trend, in which the total annual value of exits rose from \$1.17 billion in 2010 to \$14.85 billion in 2014. Since then, however, exit reports have exhibited no clear trend, with figure going in opposite directions from one year to another. Figures went down slightly in 2015, plunged 66% in 2016, rose nearly 50% in 2017, and again fell slightly in 2018.

Nine public offerings were held in 2018, including seven by life sciences companies. All of the public offerings took place overseas: five on Wall Street and four on the Australian Securities Index. The offerings totaled \$890 million, compared with nearly \$1.5 billion in the preceding year. The average size per offering fell from \$133 million in 2017 to \$99 million to 2018.

There were 18 exit deals in the life sciences, the highest number in this sector for the past decade and 30% of the all exits for the year, the highest proportion in the past decade except for 2015, when the proportion was almost identical. The total amount of the life sciences exits was \$1.6 billion.

The most significant decline in the past year

was in the Internet sector, in which the number of deals fell from 17 in 2017 to only three in 2018. The total amount of the deals plummeted from nearly \$10 billion to a mere \$105 million. "In our opinion, this decline resulted from the fact that fewer companies define themselves as active in this sector, because the need for specification has grown over the year," PwC adds. The leading sector this year was again computers and software for corporations. There were 21 deals totaling \$2.35 billion in this area in 2018, almost half of all deals in 2018.

PwC: 2018 record year for M&As in Israel

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Elbit Systems wins NIS 1.25b IDF munitions contract

The contract is part of the agreement for the sale of Israel Military Industries to Elbit Systems by the state.

Elbit Systems Ltd. (Nasdaq: ESLT; TASE: ESLT) has been awarded a contract by the Directorate of Production and Procurement of the Israeli Ministry of Defense valued at approximately \$333 Million (NIS 1.25 billion) for the supply of ammunition to the Israeli Defense Forces. The five-year contract, work on which will commence in 2026, is a continuation of a multi-year contract with the Ministry of Defense.

Elbit Systems recently completed the acquisition of Israel Military Industries (IMI) from the state for NIS 1.9 billion. Ministry of Defense sources said the munitions order from Elbit represented fulfilment of the agreement for the privatization of IMI, and said it was intended to ensure the success of the process, which includes the vacation of IMI land near in the Ramat Hasharon area and the transfer of IMI factories to Ramat Beka in the Negev. The munitions that are the subject of the

current order will be manufactured at the new plants.

The order is intended to renew the IDF's stocks as part of its procurement program for the next decade. "This agreement is a win-win for the military and the state, as it ensures continuity of supply of munitions for all ground forces units, and it will support the nationally important process of moving IMI's plants to the Negev," said Avi Dadon, head of the Directorate of Production and Procurement.

IVC-ZAG: Israeli startups raised record \$6.4b in 2018

In the final three months of 2018, Israeli startups raised \$1.82 billion, a record quarterly amount.

In 2018, Israeli high-tech companies raised a record \$6.4 billion in 623 deals, according to the latest report by IVC Research Center - ZAG S&W. The total capital raised in 2018 was 17% higher than in 2017, and 120% higher than 2013. The amount raised has risen for the past six consecutive years although the number of deals decreased slightly in 2018.

In the fourth quarter of 2018, Israeli startups raised a record \$1.82 billion, up 8% from the preceding quarter. However, there were 140 deals in the fourth quarter of 2018, down from 163 deals in the corresponding quarter of 2017.

The number of deals below \$5 million continued to shrink in 2018, while deals above \$20 million kept growing. According to IVC's analysis, the amounts of larger deals almost quadrupled from 2013 to 2018, capturing 63% of the total amount in 2018. The number of smaller deals (below \$5m) has declined by 23% since 2015. The fourth quarter of 2018 saw a record 34 deals over \$20 million each. Those larger deals raised a total of \$1.3 billion

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in the fourth quarter and \$4.1 billion in 2018 due to five mega deals: Landa Corp. (\$300m), Jfrog (\$165m) Insightec (\$150m), Trax (\$125m), and eToro (\$100m).

In 2018, venture capital-backed deals totaled \$4.7 billion, however, the number of venture capital-backed deals dropped for the first time since 2014 to 327. The average of venture capital-backed deals soared to \$14.4 million in 2018, almost double from 2014 and 36% higher than the 2017 average.

For the first time since 2015, IVC data has recorded an increase in seed financing deals to 175 in 2018. Following a decrease of 27% from 2015 to 2017, seed deals increased 18% in 2018. Investors' preference to focus on fewer deals drove down the median seed round to \$0.68 million, while other median financing rounds more than doubled in 2013 - 2018.

In 2018, Israeli software company capital raising grew over 50% from 2015 and six-times from 2013. Thirteen mega software deals (above \$50 million) over the past year totaled more than \$1 billion. In the fourth quarter of 2018, software companies raised \$1.01 billion as a result of 19 large deals (above \$20 million each).

In 2018, life sciences capital raising was stable, \$1.2 billion in 126 deals. Medical devices companies attracted 50% of the total sector capital and deals over \$20 million captured more than 70% of the amount in this sector.

Fintech companies attracted the highest amounts in 2018 compared with 2013-2017 due to mega-deals: eToro (\$100m), Next Insurance (\$83m), and Hippo Insurance (\$95m).

2018 was the strongest year for Israeli cybersecurity companies, which raised \$1.08 billion in 89 deals, higher than 2017.

Companies with AI characteristics continued the uptrend in valuation reaching \$1.89 billion in 2018.

IVC Research Center research director Marianna Shapira said, "2018 was a busy year for Israeli high-tech capital raising. Most of the capital was raised by well-established software companies with annual revenues of up to \$10m in the verticals of AI and cyber security. The term 'wealth attracts money' describes the continued investment trend in Israel, as in the US. A number of other signs hint that the Israeli technology market will enter 2019 as an attractive target for global investments: more companies (43% of all active) have reached mature stages, a desirable goal for investors concentrating on quality rather than quantity."

She added that foreign investors were more involved in the local venture market, boosting capital volume, as their average and follow-on investments increased. "In addition, as the number of seed transactions has grown in 2018, and venture capital allocation to current portfolios continues to flow, these major trends in Israeli high-tech capital raising will continue in the beginning of 2019."

Venture capital funds captured the largest investment share (34%) of total capital raised in 2018, reflecting a decrease compared to their historical share. Investment companies more than doubled the capital inflow compared with 2017. According to IVC's data, the share of corporate VC capital investments has gradually grown over the years, reaching 9% of total capital invested in 2018, same as = in 2017.

Zysman, Aharoni, Gayer & Co. (ZAG-S & W) managing partner Shmulik Zysman said, "The last quarter of 2018, in which high-tech companies in Israel raised \$1.815 billion, a quarterly record sum, actually sums up the

clear and consistent trend of Israeli high-tech - a consistent and steady rise for the last 6 years. Over the course of 2018, there was a noticeable trend of foreign funds and investors, whose investments in Israel rose by more than \$1 billion compared to last year."

He added, "A surprising and different factor is the trade war between China and the US: when those two are quarreling, Israeli companies are the ones that profit. Israeli high-tech companies have become the indirect route of Americans to China, and of the Chinese to the US."

Zysman continued, "In recent years we have witnessed a decline in the share of seed and early stage companies in percentage of total investments in Israeli high-tech. Ostensibly, some will interpret this as a dangerous trend, since a tree will not grow without its roots; however, an in-depth analysis of this trend shows a steady increase of capital invested in these companies over the past six years. For example, the capital invested in these companies in 2018 is about 60% higher than the capital invested in early stages in 2013. In our view, this is excellent news."

Israeli venture capital funds slowed their activity during 2018, both in new and follow-on investments. For the first time since 2013, the number of follow-on investments has exceeded the number of first investments for Israeli venture capital funds.

A slowdown was also noted in the relatively low share of Israeli venture capital funds compared with the overall amount - just 12%, the lowest in 6 years.

IVC-Meitar: Israeli tech exits reach \$12.63b in 2018

This amount was nearly double the \$7.7 billion in exits in 2017, not including Mobileye, although the number of deals fell from 133 to 103.

In 2018, exits activity in Israel reached \$12.63 billion in 103 deals, including four large deals, each over \$1 billion: Orbotech - acquired by KLA-Tencor for \$3.4 billion (subject to closing); Imperva - acquired by Thoma Bravo for \$2.1 billion; Mazor Robotics - acquired by Medtronic for \$1.6 billion (Subject to closing); and SynaMedia (formerly NDS) - acquired by Permira for \$1 billion.

The total number of exit deals fell slightly to 103 compared with 133 in 2017. According to the IVC-Meitar 2018 Exit Report, the decrease is due to a decrease of deals of \$20 million and below.

In 2017, the IVC-Meitar report found \$7.7 billion in exits although this did not include the \$15.3 billion acquisition of Mobileye by Intel

Meitar Liquornik Geva Leshem Tal & Co. partner Adv. Shira Azran said, "The aggregate value of the exits in 2018 was significant, approx. \$12.63 billion. A closer look at the data reveals mixed trends. On the one hand, four exits exceeded \$1 billion and these deals have become part of the industry. On the other hand, during 2018 we saw a decrease in the number of exits of private companies between \$ 250 million and \$ 1 billion."

Azran added, "An examination of the investment data indicates an increase in 2018 in general, and in particular, the number of large-scale investments in growth companies increased significantly. For example, the number of companies raising amounts of more than \$30 million, rose to a peak of 62 transactions in 2018. This combination of a significant increase in the volume of investments in growth companies and a relative stagnation in exits value, highlights the fact that Israel is building a strong and significant infrastructure of companies that in the coming years will examine their ability to reach an exit that reflects a significant return to investors".

While venture capital-backed deals remained at stable levels in 2018, a significant drop of 58% was noted in the non-venture capital-backed exits.

2018 IPO and Buyout numbers retained their historical ranges. Five Israeli life science companies completed their IPO in the US, raising an aggregate of \$246 million. Three Israeli companies completed an IPO in Australia, raising a modest \$12 million.

M&A values in 2018 totaled \$11.1 billion compared to \$6.3 billion in 2017 although M&A numbers dropped 20% from 111 to 89 transactions in 2018. The four large exits above \$1 billion counterbalanced a decline in the number of exits in the range of \$250 million to \$1 billion, from five in 2016 and eight in 2017 to just three in 2018.

IVC Research Center CEO Benzi Segev said, "The Israeli startup landscape in 2018 took another step in the global direction of more money funneled into less deals. This pattern was noted on both sides of the tech deal activity - M&A and funding. Looking 12 to 18 months ahead, the fundamentals for long term growth already exist-amounts and numbers of large investments are on the rise, but it remains to be seen if the local scene could use these resources to grow."

According to the IVC-Meitar Exit Report, in 2018 there were 34 venture capital-backed companies reaching an exit after more than five years of activity, similar to the level in the last five years for venture capital-backed exits. However, the number of non-venture capital-backed companies that reached an exit in less than 5 years since establishment decreased nearly 60% in 2018, to only 15, compared with 34 and 36 in 2016 and 2017, respectively.

In 2018, the number of life sciences companies with exit activity continued to grow (24 deals including 7 IPOs). Exit values kept to the same

level as 2017, reaching \$2.98 billion. While the number of deals in the IT and software sector remains stable, the value of 2018 exits increased to \$4.49 billion from \$3.31 billion in 2017.

AI (Artificial Intelligence) exit values soared in 2018 mostly due to the Datorama deal (\$850m), reaching \$1.15 billion, almost four-times higher compared to \$307 million in 2017. The number of AI exits remains in historical figures. Cybersecurity exit values in 2018 set a record - \$2.81 billion in 12 deals compared with \$1.35 billion in 14 deals in 2017.

Siemens invests \$25m in Israeli logistics co Bringg

The Israeli delivery logistics platform for enterprises is already operating in over 50 countries.

Israeli delivery logistics platform for enterprises Bringg announced today that it has closed a \$25 million Series C financing round from Next47, the Siemens-backed global venture firm. Previous investors include Salesforce Ventures, Aleph VC, OG Ventures (Eyal Ofer's venture capital fund), Cambridge Capital, Coca-Cola, Ituran and Pereg Ventures. The Tel Aviv based startup has raised \$53 million to date including the latest financing round.

With major customers including Walmart, Panera Bread, and Arcos Dorados (McDonalds' largest global franchisee), the new funding will help accelerate business expansion during the company's rapid growth stage. Bringg, which already operates in over 50 countries, will use the funds to further expand globally through sales, marketing and development efforts targeted at securing additional global enterprise customers.

Growing pressure for faster deliveries that are also more convenient and fully transparent,

means that businesses are increasingly being asked to find new ways to create better experiences for their customers, while optimizing their delivery-related business models.

Bringg's Delivery Logistics solution provides the platform for enterprises to orchestrate, manage, measure and track their entire delivery ecosystem, whether they are using in-house fleets, third party providers, or a combination of both.

Bringg CEO Guy Bloch said: "This is a watershed moment for Bringg as it goes into hyper-growth mode. This new investment enables Bringg to level the playing field in the age of Amazon by enabling large retailers, grocery chains, consumer goods companies, restaurant chains and logistics firms to provide their customers with what they expect from their deliveries, based on the optimized business models required to win in today's challenging market."

He added: "We are on a mission to equip enterprises with the technology platform they need to orchestrate successful delivery operations - providing their management and logistics teams with the visibility and control they need to not only survive but thrive in this exciting new landscape."

Next47 partner Matthew Cowan said, "We're delighted to invest in Bringg, a pioneering company that's providing crucial capabilities to leading organizations looking to connect logistics data across different silos and optimize their last mile of delivery."

With the global logistics market predicted to grow to \$15.5 trillion by 2023 and the 'Amazon effect' drastically changing customer expectations, Bringg has a massive opportunity to fundamentally transform the logistics industry by enabling seamless automation, greater data transparency, and a more collaborative mental outlook."

Cancer co Orogen to raise \$150m in Nasdaq offering

The company published good results for its urinary tract cancer treatment, which it hopes to launch this year.

Urogen Pharma (Nasdaq: URGN), which develops treatment for urological cancer, announced its intention of filing a shelf prospectus for raising \$150 million on Nasdaq. The announcement comes shortly after the company appointed a new president and CEO - former Novartis Oncology CEO Liz Barrett and her successful appearance at the JP Morgan conference early this month. The underwriters for the offering are Goldman Sachs, JP Morgan, and Jeffries, together with Oppenheimer.

Urogen published good results early this month in its trial of a treatment for upper urinary tract cancer, which should enable the company to obtaining marketing approval for this product. Urogen's market cap is \$864 million. Following the announcement of the planed financing round, Orogen's share price rose 5%, indicating that the market does not believe that the financing round will reflect a substantial discount on the market price.

Urogen will use the money it raises to launch its first product for treatment of upper urinary tract cancer. The company hopes to launch the product this year. It will also use the money to expedite clinical trials of drugs in the company's pipeline for treatment of other types of urinary cancer. Urogen has an agreement with Allergan for Botox delivery to the urinary tract as a treatment for overactive bladder (OAB).

Urogen held its IPO in May 2017, raising \$58 million, and raised \$60 million in a secondary round a year ago. The return on the company's share since its IPO under CEO Ron Bentsur, whom Barrett replaced, is 300%.

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Urogen's chairperson is Arie Beldegrun, who last year sold Kite Pharma to Gilead Sciences for \$12 billion. It appears that part of Urogen's growth is attributable to Beldegrun, a legendary figure on Wall Street, devoting far more time and effort to the company (among other things, he recruited Barrett as CEO).

Urogen was founded as TheraCoat in 2004 in the Granot Ventures incubator. Its founder was Asher Halter, who founded InsprieMD.



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