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Investment Continues

Private equity firms buying Forescout Technologies for \$1.9b

Advent International and Crosspoint Capital have agreed to pay \$33 per share for US-Israeli company Forescout, which made its Nasdaq IPO just over two years ago.

Just over two years have gone by since cybersecurity company Forescout Technologies, Inc. (Nasdaq: FSCT) made its IPO in New York, and it is about to become a privately-held company again. The company announced today that it will be sold to private equity firms Advent International and Crosspoint Capital Partners for \$1.9 billion, or \$33 per share. The price represents a premium of 18% over the company's closing price yesterday, and today the share price rose 19%, surpassing the acquisition price. In its announcement, of the deal, Forescout states that "the purchase price represents a premium of approximately 30% over Forescout's closing share price of \$25.45 on October 18, 2019, the last full trading day prior to the release of the 13-D filings by Corvex Management L.P. and Jericho Capital Asset Management L.P. on October 21, 2019, which disclosed they had formed a partnership to approach Forescout and accumulated a combined 14.5% ownership in the company." The implication is that the acquisition of stakes by these two firms, which came shortly after Forescout's share price plummeted following a profit warning, was an important factor in pushing Forescout in the direction of a sale. Forescout was floated on

Nasdaq in October 2017 at \$22 per share, so that for anyone who invested in the IPO, a \$33 per share acquisition price is positive. At its peak, however, the share price reached \$46, in March 2019. A secondary offering in early 2018 was at \$29 per share. Shareholders that had been invested in the company since its days as a private company sold parts of their stakes at that time, among them the Accel, Amadeus Capital, Pitango and Meritech funds.



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According to recent reports, Israeli fund Pitango and British fund Amadeus still hold shares in Forescout, and will sell their holdings in the current deal for \$138 million (Amadeus) and \$100 million (Pitango). Pitango partner Rami Kalish is a director of Forescout.

Forescout, founded by Israelis and with a development center in Tel Aviv, is headed by Michael DeCesare. It provides security and control solutions for connected devices in enterprises. The company does not install its security solution on end devices, but provides solutions that give its customers visibility on what happens on their networks and enables them to set security policy. It was founded by its Hezy Yeshurun, Oded Comay, Dror Comay, Doron Shikmoni, and Noga Alon. DeCesare will continue to head the company after the sale.

"Forescout has established itself as a leader in device visibility and control, with the most advanced platform in the market," DeCesare said today. "We are still in early innings of a large market opportunity as every organization needs visibility into what is connecting to their network and how to mitigate against high risk devices, including non-traditional IoT and OT devices. This transaction represents an exciting new phase in the evolution of Forescout. We are excited to be partnering with Advent International and Crosspoint Capital, premier firms with security DNA and track records of success in strengthening companies and supporting them through transitional times."

The sale agreement includes a 30-day period in which Forescout can look for better acquisition offers and cancel the current deal if it receives one. Otherwise, the deal is due to close in the second quarter, subject to approval by the shareholders.

Forescout also released its 2019 financials today. Revenue for the year totaled \$337 million, 13.2% more than in 2018. On a GAAP

basis, the company posted a net loss for the year of \$119 million, which compares with a loss of \$74.8 million in 2018. On a non-GAAP basis, the net loss for 2019 was \$38.4 million, or \$0.84 per share, which compares with a loss of \$17.4 million in 2018.

Israel's Fortissimo closes \$650m investment fund

This is the private equity firm's fifth fund and it has now raised \$1.6 billion.

Israeli private equity firm Fortissimo Capital announced today the final closing of its fifth fund, Fortissimo Capital Fund V, L.P., with commitments of \$650 million. Fortissimo says the fund will "focus on special situations and growth opportunities." Fortissimo has been operating for more than fifteen years and has raised \$1.6 billion. Fortissimo founding and managing partner Yuval Cohen said, "We're very gratified that our existing investors and several new large and prestigious investors selected to participate in this fund, which quickly became oversubscribed. We see their commitment as a strong vote of confidence in

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our investment strategy and our ability to work together as a team to enhance the value of our portfolio companies." Investors in Fortissimo V include large US, European and Israeli institutional investors including: state and corporate pension funds, endowments, fund of funds, trusts and insurance companies.

Fortissimo's first fund was founded in April 2004 and raised \$80 million. Fortissimo's second fund raised \$110 million in 2008 and its third fund raised \$265 million in 2012. Fortissimo's fourth fund raised \$472 million in 2015. Fortissimo's current fund raised \$650 million.

Some of Fortissimo's notable exits include: Kornit Digital Ltd (Nasdaq: KRNT) IPO; SodaStream International Ltd (Nasdaq: SODA) IPO; the sale of Diptech to Ferro (NYSE: FOE), the sale of Nur Macroprinters Ltd. to Hewlett Packard; the sale of Cadent Inc. to Align Inc.; the sale of Starhome to Telerix; the sale of all of our holdings in Biological Industries to Sartorius AG (SRT.GR) and the sale of AOD Software Inc. to a US based private equity fund.

Fortissimo Capital Fund V is a special situations and growth capital Israeli-related private equity fund focused primarily on maturing technology and industrial companies that are at a point of inflection. Fortissimo's investment strategy is to achieve capital appreciation through taking a leading role and active approach in Israeli-related global businesses that require immediate and significant change, or stimulation of growth and by building business fundamentals to facilitate sustainable long-term growth and value creation.

Hyundai invests in Israeli voice tech co Kardome

The Korean carmaker will also incorporate the Israeli company's technology in its cars.

Israeli startup Kardome announced today the completion of a seed round led by Korean carmaker Hyundai and with the participation of NextGear Ventures and the ATOORO Fund. Hyundai will also incorporate Kardome's voice control technology in its cars. Kardome was founded in January 2019 by serial entrepreneurs CEO Dani Cherkassky and Alon Slapak, with the goal of meeting the growing demand for reliable voice control technology from automakers and electronics manufacturers. Kardome's technology gives the machine better "ears" through algorithms that manage to isolate the user's voice, even in a noisy environment with multiple speakers and background noises that are active at the same time. Kardome's technology combines dedicated software with the use of microphones that exist in various products. Kardome software enables the implementation of a new generation of voice user interface, operating reliably even in noisy and multi-speaker environments, such as vehicles, public buildings, restaurants and even at home.

Cherkassky said, "Hyundai's investment, one of the world's leading automakers, directly in Kardome - made after a thorough comparative technical examination, expresses confidence in the technology we have developed and also indicates the need and yearning of all the world's leading technology makers for a zero touch interface that works reliably in a natural and noisy environment. The investment will help us increase the company's manpower and accelerate the development of the new generation of voice interfaces, as well as expand the company's global presence".

Kardome will also participate in the commercialization program at the Drive TLV innovation center, which is controlled by the Meir Group. Kardome intends to use the investment funds to accelerate the development of an innovative system for spatial isolation of voices in challenging

acoustic environments, which will, among other things, be used by Hyundai vehicles and robots worldwide.

Hyundai CRADLE TLV Investment Manager Koby Simana will also join Kardome's board. He said, "Hyundai is happy to partner and support Kardome's journey. We plan to use Kardome's robust voice AI technology to boost customer's value and gain competitive advantage by enhancing user experience and safety features."

Comtech buys Israel's Gilat Satellite Networks for \$577m

Gilat has leading positions in the satellite ground station and in-flight connectivity solutions markets and expertise in operating large network infrastructures.

Comtech Telecommunications Corp. (Nasdaq: CMTL) announced today that it has agreed to acquire Gilat Satellite Networks Ltd. (Nasdaq: GILT; TASE: GILT) in a cash and stock transaction for \$10.25 per Gilat ordinary share. 70% will be paid in cash and 30% in Comtech common stock, for an enterprise value of \$532.5 million.

This reflects a company value of \$577.3 million. Founded in 1987, Israeli company Gilat has developed satellite networking technology, solutions and services with market leading positions in the satellite ground station and in-flight connectivity solutions markets and deep expertise in operating large network infrastructures.

The combined companies would employ approximately 3,000 people and offer best-in-class satellite technology, public safety and location technology and secure wireless solutions to commercial and government customers around the world.

Comtech chairman and CEO Fred Kornberg

said, "The acquisition better positions Comtech to take advantage of key marketplace trends, particularly the growing demand for satellite connectivity and the enormous long-term opportunity set that is emerging in the secure wireless communications market. I believe that the combination of accelerating satellite connectivity demand and the increasing availability of low-cost satellite bandwidth, makes this a perfect time to unify Comtech and Gilat's solutions and offer our combined customers best-in-class platform-agnostic satellite ground station technologies. Gilat is an exceptional business that has developed extraordinary technology and has a well-respected product portfolio supported by strong research and development capabilities. I welcome Gilat's entire talented workforce to the Comtech family."

Gilat chairman Dov Baharav said, "The Gilat Board of Directors and management believe this highly strategic combination is compelling. It is an excellent outcome for our shareholders who receive both cash and an equity interest in a strong company with a broader range of products and the benefits of combined expertise and resources that is well positioned to create future value against a highly favorable industry backdrop.

I have long admired Comtech's commitment to technology leadership and I firmly believe that employees will have expanded opportunities for career development. No doubt, the future will be very bright for Comtech and Gilat and all of our stakeholders."

The acquisition is a major success for the FIMI Israel Opportunity Funds, which has built a 34% stake in Gilat between 2012 and 2014, paying \$80 million at an average gross share price of \$4.30 per share. FIMI has led major strategic and operational changes that have transformed the company and will now receive from Comtech \$10.25 per share - a return of nearly 240%.

BrainsWay share price up despite PTSD trial failure

The company's helmet for magnetic stimulation of the brain is already approved for treating depression and obsessive-compulsive disorder, and a trial for stopping smoking was successful.

Gali Weinreb Brainsway Ltd. (TASE:BRIN Nasdaq: BWAY) announced that its H7-coil deep transcranial magnetic stimulation (dTMS) system had failed to demonstrate effectiveness in treatment of adults with post-traumatic stress disorder (PTSD) in comparison with the control group, according to interim results of a trial currently being conducted by the company. Results were obtained for 87 patients in the study.

BrainsWay announced that it would not continue the current trial, but that it may conduct later trials of the product for treatment of PTSD with a slightly different definition of the endpoints. BrainsWay's share price on the Tel Aviv Stock Exchange actually closed 0.38% higher today, while on Nasdaq its price is up nearly 2%. The company has a NIS 414 million market cap.

BrainsWay has already achieved success in a multi-center trial of its dTMS system for treatment of depression, obsessive-compulsive disorder (OCD), and addiction to smoking. The first two products already have marketing approval from the US Food and Drug Administration, and are being marketed in the US and other countries. The new trial results indicate that BrainsWay has not produced a single invention that solves all of the world's mental and brain disorders, but the potential of the three markets in which the company already operates is in the billions of dollars. BrainsWay's treatment method is also in initial trials for treatment of other disorders, among them anorexia, Alzheimer's Disease, epilepsy, nerve pain, and stroke recovery.

This may be the reason that the company's share price did not plunge in response to the latest trial results.

BrainsWay's device works through magnetic stimulation of the brain, which can affect electrical activity of nerves in the brain. Treatment of depression through intervention in electrical brain activity is the basis of electroconvulsive therapy (ECT), which has been used for decades in the treatment of depression that is resistant to drugs and other forms of treatment. Magnetic treatment is an alternative to ECT used by a number of companies. BrainsWay is the first company to extend magnetic-based treatment to areas in which ECT was never used: OCD and addiction. The company has demonstrated the potential of electrical intervention in such cases. There are also companies that use implanted electrodes to stimulate the brain directly for treatment of epilepsy and Parkinson's Disease.

BrainsWay was dual-listed on Nasdaq last April, raising \$30 million. Its share price has gone up and down since its offering, but is currently near the offering price.

The company's revenue in the last quarter totaled \$5.9 million, 38% more than in the corresponding quarter in the preceding year, after it increased the number of its systems installed in doctors' clinics and added a kit for treatment of depression. \$3.4 million of this was repeat revenue. 488 BrainsWay systems are now installed in the US. The company posted a \$2.2 million operating loss and a \$2.6 million net loss, due to high marketing costs, despite its high gross profit margins.

A few months ago, BrainsWay appointed Dr. Christopher von Jako as president and CEO. "We remain focused on executing our growth strategy through our current FDA-cleared indications of Major Depressive Disorder and OCD, which represents an addressable market of approximately

\$9 billion," he said today. "In addition, we continue to maintain a robust pipeline of additional applications with our proprietary dTMS platform targeted at other large-market psychiatric, neurological, and addiction conditions."

Institutions losing heavily on Tamar Petroleum

The market believes that company's sales projections for the Tamar gas reservoir are over-optimistic, and is pricing the company accordingly.

A month-long downtrend in the oil and gas stocks traded on the Tel Aviv Stock Exchange (TASE) was interrupted yesterday by a correction. Ratio, Delek Group, Delek Drilling, and Navitas led the turnaround with gains of 4-6%, after the sector index had lost over 20% during the global downturn in oil prices, which picked up speed with the spread of the Chinese coronavirus. Trailing behind the other oil and gas shares yesterday was Tamar Petroleum, which holds 16.75% of the rights in the Tamar natural gas reservoir. Since trading in Tamar Petroleum began on the TASE in 2017, the stock has lost 70% of its value in tandem with the steep fall in the value of its underlying asset - the Tamar reservoir.

In term of historic profit multiple, Tamar Petroleum is incredibly cheap. The company's recent loss in market cap is NIS 460 million, while its net profit in the first nine months of 2019 was NIS 340 million. Assuming a NIS 440 million profit for the year, Tamar Petroleum is currently trading at a historic multiple of just 1-1.1.

The capital market, however, acts according to expectations and forecasts, so the historic profit multiple is not very important; the company's current share price reflects a pessimistic scenario. This is indicated by the relatively high yields at which the two bond

series issued by Tamar Petroleum are being traded: 7.6-7.8%. Still, this is a reasonable yield, considering the company's level of risk and its business environment.

Unsuccessful offering, rejected merger

Tamar Petroleum ran into a brick wall last month, when it tried to raise NIS 140 million in a share offering in a bull market, but could not pull it off. The company decided to postpone the offering, attributing the postponement to "market conditions."

Investment institutions were apparently worried that Tamar Petroleum would have trouble meeting its bond obligations of nearly NIS 4 billion in the coming years, given the mounting competition in the natural gas market and expected fall in gas prices. The failure of the offering came shortly after Tamar Petroleum's merger offer to Alon Natural Gas Exploration, which also holds rights in Tamar, was rejected by Alon's board of directors.

Capital market players are currently pricing a decrease in the quantity of gas that the Tamar reservoir will supply in the coming years, despite the beginning of exports to Egypt and Jordan, coupled with a steep drop in gas prices. The average price of the gas supplied by the reservoir in the third quarter of 2019 was \$5.60 per BTU, which is projected to fall to around \$4 per BTU in the coming years.

Karish and Leviathan taking away market share

The biggest problem facing the Tamar reservoir, however, is probably the prospect of a substantial reduction in the quantity of gas that it supplies. Gas consumption in Israel totaled 11.2 billion BCM in 2019. According to its presentation last November, Tamar Petroleum believes that demand will jump to

19 BCM in 2025 and 22 BCM in 2030, with the increase coming mainly from demand on the part of private electricity producers, industry, and transportation.

According to the November presentation, Tamar is expected to supply a little over 9 BCM in 2020, 8.5 BCM in 2021, and 8 BCM to the domestic market and 2.2 BCM more in exports to Egypt and Jordan annually in 2022-2025. Several analysts and players in the capital market cast doubt on these predictions; they believe that the quantities will be far lower.

There are solid grounds for expecting a fall in quantities and prices. There is currently a large surplus of gas in the domestic market with the commencement of supply from Leviathan earlier this year. This surplus is projected to grow in 2021, when Energean's Karish reservoir begins supplying gas to customers.

Presentations by the companies and partnerships show that a fairly continuous rise in domestic demand for gas is expected in the coming years, among other things due to the gradual shutdown of coal-fired power stations and the switch to electricity production using natural gas and renewable energy. At the same time, it appears that the underlying assumptions for the presentations are overly optimistic, given the increasing efficiency of power production using solar and wind energy in recent years, a trend that is expected to continue.

The improvement in renewable energy output, which has made it cheaper to produce electricity from solar energy than from coal or gas, coupled with the global trend towards reduced use of polluting fuel, obviously has a negative impact on the pricing of conventional energy companies and partnerships in Israel and worldwide.

In addition to the steep fall in the price of gas, as of now, the possibility of exporting gas from

Leviathan to Europe has been virtually eliminated. This means that a lot more gas will be looking for customers in Israel and the surrounding area in the coming years.

Investment institutions losing money on paper

Tamar Petroleum, a special purpose vehicle founded by the Delek Drilling partnership, held its IPO in July 2017, raising \$650 million (NIS 2.4 billion) in a bond issue and \$200 million more in an equity offering. The money was used to acquire 9.25% of the rights in the Tamar reservoir from Delek Drilling.

The offering represented a \$12 billion valuation for the Tamar reservoir, which is currently priced at less than half of that. Tamar Petroleum raised \$560 million more in a March 2018 bond issue, which it used to buy 7.5% more of the rights in Tamar, this time from Noble Energy.

Delek Drilling currently holds 22% of Tamar Petroleum's shares, which it must sell in one way or another by the end of 2021. Given the steep drop in Tamar Petroleum's market cap, the market believes that the more likely possibility is distribution of Tamar Petroleum's shares as a dividend in kind to shareholders in Delek Drilling (headed by Yitzhak Tshuva's Delek Group).

Another question concerning Tamar is the actions of Noble Energy, which holds 25% of the Tamar reservoir, together with a 39.7% holding in Leviathan. Both Noble Energy and Delek Drilling, which directly holds 45% of the rights in Leviathan and 22% of the rights in Tamar, have a much stronger interest in promoting Leviathan than in promoting Tamar.

Besides Delek Drilling, a number of investment institutions have substantial holdings in Tamar Petroleum: the provident funds of Menorah Mivtachim (12.5%), Altshuler Shaham (11.3% for its provident and mutual funds),

Migdal (9.5%), and Harel (6.1%). All of these have lost substantial amounts of money on paper on their investments in Tamar Petroleum's shares.

Bol purchased \$3b foreign currency in January

Israel's foreign currency reserves are close to exceeding \$130 billion for the first time.

The Bank of Israel reports that it purchased almost \$3 billion in foreign currency in January in an attempt to halt the shekel's appreciation. These purchases together with transfers from overseas by the government increased the reserves by \$3.95 billion, bringing them close to exceeding \$130 billion for the first time.

Following the report, Bank of Israel sources said that market players would realize that Israel's central bank would continue acting in the foreign currency market as needed in order to achieve the goals of its policy. Since the Bank of Israel began intervening in foreign currency trading last November, Israel's foreign currency reserves have risen by \$8 billion.

Governor of the Bank of Israel Prof. Amir Yaron told "Globes" last week that the Bank of Israel would continue using foreign currency intervention as a tool for neutralizing shekel appreciation, because it was a focused tool with a direct impact on the shekel exchange rate. On the other hand, Yaron made it clear that he would not use the interest rate tool, the effect of which would be broader, unless a severe downturn in economic activity in Israel occurs.

As of the end of January, the foreign currency reserves managed by Bank of Israel totaled \$129.965 billion, amounting to 33.8% of Israel's GDP. The increase in the foreign currency reserves is attributable to the Bank of Israel's purchases of \$2.951 billion in foreign currency in January, \$1.166 billion government

transfers from overseas, and \$5 million transferred by the private sector. The increase was partially offset by revaluation of foreign currency balances amounting to \$171 million.

Yet despite the Bank of Israel's massive intervention, the shekel continues to strengthen. The representative rate was set down 0.377\$ today at NIS 3.439/\$, the strongest the shekel has been against the dollar for two years.

Harris acquisition to hit Elbit's profits

Elbit Systems announced that it would post a \$55 million expense in its cost of sales item.

The \$350 million acquisition of Harris Night Vision last September will have a negative impact on the gross profit of Elbit Systems Ltd. (Nasdaq: ESLT; TASE: ESLT) in the fourth quarter of 2019, the Israeli defense electronics company has announced. Elbit Systems announced today that it would post a \$55 million expense in its cost of sales item. This expense, however, will not be included in its non-GAAP results.

Elbit Systems' GAAP gross profit in the fourth quarter of 2018 was negatively influenced by its acquisition of IMI Systems; its GAAP gross profit in that quarter was \$235 million, compared with a non-GAAP gross profit of \$307 million, while its GAAP and non-GAAP gross profits in the third quarter of 2019 were \$286 million and \$290 million, respectively.



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