

## Israeli VCs rush to China seeking investments, exits

As local investors take a ground-breaking trip to meet Chinese VCs on their own turf, reports say another Israel-China mega-deal is in the works



President Reuven Rivlin (R.) and China's Ambassador to Israel Gao Yanping at an event in Tel Aviv commemorating National Day, the 65th anniversary of the founding of modern China (Photo credit: Courtesy)

Delegations of Chinese investors are a common sight in Israel these days, but the traffic has been one way – until this week, when a group of 22 Israeli venture capital investors departed for China.

The delegation, organized by the Economy Ministry, is meeting with hundreds of representatives of financial entities in Hong Kong, Shanghai and Beijing. The objective of the trip: to expose the Israeli tech ecosystem in general and the VCs start-ups in particular to Chinese investors and convince the latter to invest or to partner with their companies.

Those efforts may have paid off already. Reports in the Israeli media said that another mega-deal between an Israeli company and Chinese investors is in the works. On Tuesday, Delek Group Ltd. informed the Tel Aviv Stock Exchange that it had signed a memorandum of understanding to sell its Phoenix Holdings insurance

group. According to the reports, the buyer is China's Fosun Group, and the price tag is said to be over \$300 million.

In 2013, the Chinese company's Fosun Pharma division bought a 95.6% stake in Israeli cosmetic- and medical-equipment maker Alma Lasers for \$240 million. That deal was the first major exit for an Israeli start-up bought by a Chinese company.

Now, not a week goes by, it seems, without news of a major new investment by Chinese VCs or corporations in Israeli start-ups. Last week, for example, Chinese retailer Alibaba – the biggest company on Wall Street – invested an unspecified amount in Tel Aviv-based Visualead, which develops “designer” QR (Quick Response) codes. The Alibaba announcement comes barely a month after another Chinese giant, Baidu, announced that it was making its first direct investment in Israeli video capture firm Pixellot, which allows users to capture live footage from different angles and create a single, 360-degree view of events like concerts, sporting events, etc. Pixellot announced that it had received \$3 million from Baidu. That was preceded by an announcement last November that Founder Technologies, a subsidiary of the Founder Group, is set to open a subsidiary in Israel. Founder is one of China's biggest companies – in 2012, it took in \$9.9 billion and had a net worth of \$5.2 billion.

Indeed, many Israelis are aware of the recent interest China has taken in their country, but few are cognizant of just how interested it is: Over the past two years, said Edouard Cukierman, chairman of Cukierman & Co. Investment House and managing partner of the Israel and Hong Kong-based Catalyst Investment Funds. “China over the past two years has become the number one investor in Israel. For them, Israel is a great source of technology to help them develop their economy, while for us, it's a fantastic opportunity to gain entry into the biggest market in the world.”

Last May, during a confluence of trade shows and government-sponsored events, there were nearly 1,000 Chinese business people in Israel at one time. Among those meetings was the first-ever Israel-China Economic Summit. Nearly all of them were in Israel for the first time, taking in the sights and scenery of the Start-Up Nation, and shopping around for technologies they can take home to help solve China's manifold problems. The Summit was attended by several MKs, including Robert

Ilatov and David Rotem, and Minister of Agriculture Yair Shamir, and was organized by a group called the Israel China Interflow Association (ICIA). Much of the technology that China needs, according to Chen Gang, Mayor of Xiang He City, located outside of Beijing, revolves around environmental issues, an area where Israel excels.

On his first visit to Israel, Chen was just getting to know Israeli high-tech, but was already very impressed. “I knew Israel was a leader in technology, and I also knew its accomplishments were out of character for a nation of its size — with the kind of technology you would expect only in bigger countries — but you have to come to Israel to understand what the term ‘Start-Up Nation’ really means.” Words alone, he said, cannot express the level of innovation and entrepreneurship in Israel.

With their economy so dependent on exports, Israelis are thrilled prospect of being able to sell technology and systems to the world’s second-largest economy. “It’s a two-way street,” Cukierman said. “As much as we are helping them, they are helping us.”

Cukierman has done his part to promote the Israel-China business relationship; he is one of the founders of the Catalyst Everbright Fund, a joint fund managed by Israel’s Catalyst Equity Management and Hong Kong-based China Everbright focusing on investments in agriculture, industrials/manufacturing, healthcare, water, energy, technology, media and telecommunication, among others, handpicked for their potential success in the Chinese market. The fund secured more than \$100 million at its first closing in March 2014, and is targeting US\$200-US\$300 million for its final closing.

Until recently, a trip like this would have been inconceivable; the main interest of Chinese investors was to buy Israeli technology and transplant it to China, and the investments those investors made were in Israeli firms that opened up offices or facilities in China. As Chinese investors have become more sophisticated, however, they have begun investing in Israeli companies that remain at home and serve markets around the world. Chinese investors put more money into Israeli companies in 2014 than investors from any other country.

The Israeli VCs visiting China this week – with portfolios of companies in the life sciences, communications, cleantech and IT industries – will participate in business-to-business meetings between representatives of the Israeli funds and the Chinese investors. Each of the events is expected to include about 150 representatives of leading Chinese financial and technology companies, as well as other investment houses and major private investors. A networking event will be held at the new Israeli Business Center in Shanghai, which was established by Israel's Foreign Trade Administration, which was inaugurated by Economy Minister Naftali Bennett during his recent trip to China.

Heading the delegation is Col. (res.) Ziva Eger, director of the Division for Foreign Investment and Industrial Cooperation at the Ministry Of Economy.

“We have placed much emphasis on widening the sources and areas of investment in the Israeli market and we have seen that Asian markets in general – and China specifically – have become key destinations for identifying investors,” said Eger. “Lately, we have seen a significant increase in the number of foreign investments in Israel coming from China as well as a rise in the level of interest Israel holds for Chinese investors. This delegation is part of an overall strategy by the Israeli Ministry of Economy to leverage foreign investments as an engine of growth and as a strategic tool for advancing diplomacy and strengthening the Israeli economy.”

With the economies of Asia getting an ever-greater slice of the economic pie – by 2030, China and India alone will be responsible for some 40% of the world's GDP – Israel has no choice but to pursue partnerships and investment with these markets, said Ohad Cohen, Director-General of the Foreign Trade Administration at the Israeli Ministry of Economy.

The delegation, he said, “is a strategic step. Until a few years ago, the US was the predominant investor in Israeli hi-tech, after which Israeli funds sought to raise capital mainly in European countries or in Asian countries like Singapore or Korea. This delegation is another milestone in the Foreign Trade Administration's policy of diversifying the geographical scope of exports and investment, epitomized by our allocation of significant resources to expanding activity in developing markets.”

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