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After quiet 2017, Chinese investors seen resuming Israeli tech shopping spree

Low interest rates, Mobileye, Chinese curbs on investment and US tax reform impacted the local tech world this year

By **SHOSHANNA SOLOMON**Today, 1:40 pm

Two Chinese men stand near a Chinese flag as they look out towards North Korea while visiting the Broken Bridge in the Chinese border city of Dandong in China's northeast Liaoning province on September 5, 2017. (AFP / GREG BAKER)

The sale of auto-technology firm Mobileye to Intel Corp. for a whopping$15.3 billion was by far the most significant Israeli tech moment of 2017, but US President Donald Trump's tax reform, along with changes in the Chinese investment environment, will also be remembered as defining the year, as they injected uncertainty into past 12 months.

At the end of 2016, the Chinese government issued restrictions on outbound investments but then clarified its position in August 2017, setting out a policy that banned certain investments, for example, in the military, gambling and sex industries; restricted investments in other areas like real estate, films, sports and hotels; but encouraged investments in industries that promote China's technological development, as well as the oil and mining industries.

"2017 was a transition year," said Edouard Cukierman, managing partner of Catalyst Investments L.P., an Israel-based private equity fund that manages over $250 million in investments. "The uncertain regulatory environment in China regarding investments in the first half of the year led to a slowdown in Chinese investment activity. The clarification of the rules in August has now opened up the bottleneck and I believe that in 2018 we will see renewed activity in Israel by Chinese investors."


Catalyst Investments L.P. managing partner Edouard Cukierman (Courtesy)

Catalyst's third fund, the CEL fund, which raised $200 million in commitments from investors, was set up jointly with Hong Kong-based China Everbright Ltd. More than 50 percent of the funds raised by CEL was from Chinese investors, according to company data.

As the Asian giant seeks a stake in the global technology world, shifting its economy from a labor-intensive powerhouse to one driven by technology, Chinese firms have been on a shopping spree for technologies and startups. In the past five years Chinese companies have invested some $16 billion in Israeli firms, not only high-tech, including the $4.4 billion acquisition of Playtika by a Chinese consortium in 2016, the $510 million buyout of medical device firm Lumenis by China's XIO Group in 2015, Alma Laser in 2013, and food company Tnuva in 2014.

The cooling of China's relations with the US — as Washington seems to have lost patience with China's hesitation in making trade concessions and its stance on North Korea — along with the recently passed US tax

reform, which will make it more attractive for US companies to invest in local firmsand not as many international firms, will also have an impact on Chinese activity in Israel, he said.
“Chinese investors will be less keen to do business in the US, where they feel the environment has turned more hostile,” he said. And US firms, which have been traditionally the most active in acquiring Israeli startups, may turn their attentions inward, to their home turf. “This will open up opportunities for Chinese firms to operate in Israel,” he said.

Trump’s corporate tax reforms may also lead to US investors requiring Israeli startups to register as US entities, or to move significant operations to the US, so as to make them eligible for the tax rebates.

In addition, Cukierman expects 2018 to see increased interest from Latin America in Israeli technology, as seen in the acquisition of Netafim by Mexican group Mexichem.

2017 in numbers

“Abundant available money in the global economy and interest rates close to zero (despite a few hikes) continued to drive the local tech market this year,” consultants PwC Israel said in their 2017 exits report. The mood, however, was overshadowed by the limits imposed by Chinese authorities on foreign investments and by the uncertainty injected into the market by the US tax reform.


Mobileye provides technology in the area of software algorithms that could enable autonomous cars. (Moshe Shai/FLASH90)

The total value of exists in the Israeli tech market (M&As and public offerings) was $7.4 billion, up 110% year on year, compared with $3.5 billion in 2016, according to the report published on Wednesday.

Seventy exits took place in 2017, up from 55 deals in 2016. This figure represents a return to the levels seen in 2014 and 2015, with 70 exits each.

In addition, the Israeli market twice broke the $1 billion mark in 2017, thanks to Mobileye that was acquired by Intel for $15.3 billion and NeuroDerm that was acquired by Mitsubishi Tanabe Pharma for $1.1 billion. These two deals are not included in the exits report, as they would skew the data.

The average value per deal in 2017 was $106 million, or a 66% increase year on year, even when deducting the two mega deals, the report said. Israeli tech companies returned to raising money via initial public offerings of shares on global and local markets: some 11 companies raised a total of $414 million in IPOs this year, the report said. The

largest equity issue in 2017 was that of ForeScout, which raised $116 million on NASDAQ, reflecting a market cap of $800 million.
Initial public offerings were held in a variety of exchanges, including Sweden, the UK, Australia, the US and Israel. PwC said it expects this trend to continue into 2018, with more tech offerings, including biomed companies. New markets, like Canada and East Asia markets such as Hong Kong and Singapore, are also an attractive option for Israeli IPOs, the report said.

US buyers still account for the majority of Israeli IPO and exit deals, with 33 deals worth $4.1 billion, the report said. “This is testament to the level of interest and confidence of US investors and corporations in the local tech industry. It also shows that Israeli tech continues to be very much orientated towards the US market, highlighting that it is the most relevant, both in terms of target markets and exit strategy.”